

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)	
THE OIL CONSERVATION DIVISION FOR THE)	
PURPOSE OF CONSIDERING:)	
)	
APPLICATION OF INTERCOAST OIL AND GAS)	CASE NOS. 11,666
COMPANY FOR COMPULSORY POOLING AND)	
UNORTHODOX GAS WELL LOCATION,)	
EDDY COUNTY, NEW MEXICO)	
)	
APPLICATION OF YATES PETROLEUM)	and 11,677
CORPORATION FOR COMPULSORY POOLING AND)	
AN UNORTHODOX LOCATION, EDDY COUNTY,)	
NEW MEXICO)	
)	(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 19th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 19th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

December 19th, 1996
 Examiner Hearing
 CASE NOS. 11,666 and 11,677 (Consolidated)

	PAGE
EXHIBITS	3
APPEARANCES	4
INTERCOAST WITNESSES:	
<u>ROCK A. QUINN</u> (Landman)	
Direct Examination by Mr. Bruce	6
Cross-Examination by Mr. Kellahin	27
Redirect Examination by Mr. Bruce	42
Examination by Mr. Carroll	42
Examination by Examiner Catanach	44
Further Examination by Mr. Carroll	45
Further Examination by Examiner Catanach	45
<u>WILLIAM A. SIRUTA</u> (Geologist)	
Direct Examination by Mr. Bruce	48
Cross-Examination by Mr. Kellahin	53
Examination by Examiner Catanach	57
YATES WITNESSES:	
<u>MECCA MAURITSEN</u> (Landman)	
Direct Examination by Mr. Kellahin	58
Cross-Examination by Mr. Bruce	75
Examination by Examiner Catanach	77
Further Examination by Mr. Kellahin	79
Examination by Mr. Carroll	81
<u>MICHAEL HAYES</u> (Geologist)	
Direct Examination by Mr. Kellahin	83
Examination by Examiner Catanach	92
<u>ROBERT S. FANT</u> (Engineer)	
Direct Examination by Mr. Kellahin	93
REPORTER'S CERTIFICATE	106

* * *

E X H I B I T S

Intercoast	Identified	Admitted
Exhibit 1	8	26
Exhibit 2	10	26
Exhibit 3	23	26
Exhibit 4	24	26
Exhibit 5	25	26
Exhibit 6	26	26
Exhibit 7	49	53
Exhibit 8	49	53
Exhibit 9	50	53
Exhibit 10	50	53
Exhibit 11	50	53

* * *

Yates	Identified	Admitted
Exhibit 1	59	75
Exhibit 2	61	75
Exhibit 3	71	75
Exhibit 4	74	75
Exhibit 5	85	92
Exhibit 6	87	92
Exhibit 7	89	92
Exhibit 8	90	92
Exhibit 9	91	92
Exhibit 10	94	103
Exhibit 11	95	103

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 2:05 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,666.

5 MR. CARROLL: Application of InterCoast Oil and
6 Gas Company for compulsory pooling and unorthodox gas well
7 location, Eddy County, New Mexico.

8 EXAMINER CATANACH: Appearances in this case?

9 MR. BRUCE: Mr. Examiner, Jim Bruce from the
10 Hinkle law firm in Santa Fe, representing the Applicant.

11 I have two witnesses to be sworn.

12 EXAMINER CATANACH: Additional appearances?

13 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
14 the Santa Fe law firm of Kellahin and Kellahin, appearing
15 on behalf of Yates Petroleum Corporation, and I have three
16 witnesses to be sworn.

17 In addition, we would seek your permission to
18 consolidate the InterCoast case, 11,666, with the Yates
19 pooling case, 11,677, and have you hear both cases under
20 the same presentation.

21 EXAMINER CATANACH: At this time we'll call Case
22 11,677.

23 MR. CARROLL: Application of Yates Petroleum
24 Corporation for compulsory pooling and an orthodox
25 location, Eddy County, New Mexico.

1 EXAMINER CATANACH: Call for additional
2 appearances?

3 There being none, can I get the witnesses to
4 stand up and be sworn in at this time?

5 (Thereupon, the witnesses were sworn.)

6 ROCK A. QUINN,
7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Would you please state your name for the record?

12 A. Rock Quinn.

13 Q. Where do you reside?

14 A. Tulsa, Oklahoma.

15 Q. By whom are you employed?

16 A. InterCoast Oil and Gas Company.

17 Q. And in what capacity?

18 A. Petroleum landman.

19 Q. Have you previously testified before the
20 Division?

21 A. No, I have not.

22 Q. Would you please summarize your educational and
23 your employment background?

24 A. Yes, I received a bachelor of business
25 administration in petroleum land management from the

1 University of Oklahoma in 1980.

2 I've worked with Texas Oil and Gas Corporation
3 from 1980 to 1990, Marathon Oil Company from 1990 to 1994,
4 and with InterCoast Oil and Gas Company from 1994 to the
5 present.

6 Q. Does your area of responsibility at InterCoast
7 include southeast New Mexico?

8 A. Yes, it does.

9 Q. And are you familiar with the land matters
10 involved in this Application?

11 A. Yes.

12 Q. Have you also previously qualified as an expert
13 land witness before any other state commissions?

14 A. Yes, I have.

15 Q. And which states are those?

16 A. In Oklahoma and in Louisiana.

17 Q. And are you familiar with the Application we're
18 here for today?

19 A. Yes, I am.

20 MR. BRUCE: Mr. Examiner, I tender Mr. Quinn as
21 an expert petroleum landman.

22 EXAMINER CATANACH: He is so qualified.

23 Q. (By Mr. Bruce) Mr. Quinn, what is it, briefly,
24 that InterCoast seeks in this case?

25 A. We are seeking pooling from the surface to the

1 base of the Morrow formation, Burton Flat-Morrow Gas Pool
2 underlying the east half of Section 20, Township 20 South,
3 Range 28 East.

4 Q. And does InterCoast also seek approval of an
5 unorthodox gas well location for the proposed well?

6 A. Yes. Yes, we are.

7 Q. And what is the footage of that loca- -- of the
8 proposed well?

9 A. 990 feet from the north line, 990 feet from the
10 east line of Section 20, 20 South, 28 East.

11 Q. Okay, let's move on to your Exhibit 1. Could you
12 identify that for the Examiner and tell him what it shows?

13 A. Yes, this is a Midland Map plat I have put
14 together here, delineating our proposed unit, being the
15 east half of Section 20, our location 990 from the north
16 and 990 from the east.

17 You'll note there that the offset units,
18 producing units there, are operated to the north and the
19 south half of 17 by OXY, the west half of 16 also OXY, and
20 the north half of 21 Petroleum Reserve Corporation.

21 Q. Okay. The second page of this exhibit, second
22 and third pages, what do they show?

23 A. Well, the attached Exhibit A reflects the
24 ownership within the unit area, being the east half of
25 Section 20. The attached Exhibit B reflects the ownership

1 as to the southwest quarter -- or the parties owning an
2 interest in the southwest quarter of Section 21.

3 Q. And that southwest quarter of Section 21, that
4 was simply done because when you notified people of the
5 unorthodox location, out of an excess of caution you also
6 notified those parties, did you not?

7 A. Yes.

8 Q. And looking at the second page of Exhibit 1,
9 InterCoast is the largest single working interest owner in
10 the proposed well, is it not?

11 A. Yes, it is.

12 Q. What is the primary objective of the proposed
13 well?

14 A. The Morrow formation.

15 Q. Okay. As of this point, other than InterCoast,
16 has anyone, any of the parties listed in Exhibit 1,
17 committed to the well at this point?

18 A. No, they are not, other than I have a few of the
19 Stonewall operating agreement parties who have executed the
20 AFE.

21 Q. Okay. And the second biggest owner, Diamond Head
22 Properties, L.P., they are neutral, I understand --

23 A. That is correct.

24 Q. -- in this case? Or in these two cases, we
25 should say.

1 Now, Mr. Quinn, let's move on to the -- You have
2 a number of exhibits marked 2A through 2F, and let's go
3 through them as -- hopefully as quickly as we can.

4 But let's discuss your attempts to obtain the
5 voluntary joinder of the working interest owners in your
6 proposed well.

7 When did InterCoast first begin developing this
8 prospect?

9 A. The prospect was generated by the geologist in
10 May and early June of 1996.

11 Q. And at that time he determined that a well in the
12 northeast quarter, northeast quarter, would have a good
13 chance of being successful in the Morrow?

14 A. Yes, that is correct.

15 Q. And at that point you attempted -- Well what did
16 you do to determine ownership?

17 A. Well, what we did is, we conducted an ownership
18 check of the north half of Section 20, as well as the
19 southeast quarter of Section 20.

20 Q. Okay. Because with that well, you could drill
21 either a standup or a laydown unit with your proposed well
22 location?

23 A. That is correct.

24 The ownership report reflected for the northwest
25 quarter that Hayes Properties was 100-percent record title

1 owner, and as to the southeast quarter it was Pennzoil,
2 Kerr-McGee and Claremont Corporation, which was common also
3 with the northeast quarter, which ownership was Kerr-McGee,
4 Claremont and Diamond Head Properties.

5 Q. Okay. Now, your first Exhibit 2A, what does that
6 -- what do those letters represent?

7 A. These represent our efforts to obtain farmouts
8 from some of the owners which we determined to own within
9 the area I just described, from Kerr-McGee Corporation,
10 Hayes, Claremont Corp and Pennzoil.

11 Q. Were you successful in obtaining a farmout from
12 any of these --

13 A. Yes, I was, from Kerr-McGee.

14 Q. Kerr-McGee. Now, you also -- Or you stated that
15 in looking at title -- your ownership report in the
16 northwest corner -- quarter of Section 20, that that was
17 owned of record solely by Hayes Properties, Inc.; is that
18 correct?

19 A. Yes, as record title interest.

20 Q. Okay, and you also referenced a Stonewall unit.
21 Could you describe that --

22 A. Yes.

23 Q. -- for the Examiner?

24 A. We found of record a Stonewall unit operating
25 agreement, which area included the entire Section 20 and

1 other lands, with the exception of the northeast quarter of
2 Section 20, which operating agreement covered an undivided
3 5 percent of the northeast quarter.

4 Q. The other lands in that Stonewall unit covered
5 100 percent of the working interest?

6 A. That is -- To the best of my knowledge --

7 Q. To the best of your knowledge.

8 A. -- that is correct. Several other sections
9 involved approximately 1700 acres.

10 Q. As kind of a sideline, once you found out some of
11 this and got a farmout, did you order abstracts and
12 commence getting a title opinion on this prospect?

13 A. Yes, we did.

14 Q. Okay. Once you identified the primary owners,
15 what did you do? And I would refer you to your Exhibit 2B.

16 A. Well, we submitted additional letters to the
17 owners of the -- our proposed unit area, which were
18 inclusive of Hayes. And in view of the existing Stonewall
19 agreement with Yates designated as operator, we also
20 requested a farmout from Yates at that time as well.

21 Q. Okay, and these two letters are marked Exhibit
22 2B; is that correct?

23 A. That is correct.

24 In addition to not only notifying Yates, we -- To
25 the best of our knowledge, we examined the records and

1 tried to determine who all the owners were under this
2 Stonewall operating agreement. Since it covered such a
3 large area, we went off of the most recent assignments of
4 record and used the best information available, and we also
5 notified and contacted those parties, proposing the well,
6 and requesting farmouts from them as well.

7 Q. And those other parties under the Stonewall unit
8 agreement, or Stonewall unit operating agreement, are
9 marked 2C; is that correct?

10 A. That is correct.

11 Q. Okay. Now, Exhibits 2B and 2C, they did not
12 contain an AFE; is that correct? Or they did not enclose
13 an AFE?

14 A. No, they did not. We were attempting to acquire
15 farmouts here. I did include estimated well costs in my
16 letter.

17 Q. Okay. And you weren't -- I mean, you were
18 interested in farmouts; you didn't mean to preclude anyone
19 from joining in a potential well, did you?

20 A. Not at all.

21 Q. Okay. Now, starting after you mailed your letter
22 to Yates, did you have any contact with Yates?

23 A. Yes, I did. I believe our letter to Yates was
24 dated August the 30th, and I contacted them on September
25 the 4th to follow up on that request, found out -- I talked

1 with a Janet Richardson there. She said that she had
2 received our proposal and that she would be handling it and
3 that she would be routing it through her system there.

4 Q. Okay, so you had a couple of phone calls?

5 A. Yes, I talked with her, like I said, on the first
6 part of September and a couple other times in September.
7 She indicated that Yates likely, if they were interested,
8 they would probably participate.

9 Q. Okay. Did she request an AFE and an operating
10 agreement?

11 A. Yes, she did, she requested that we prepare an
12 operating agreement and AFEs and submit them.

13 Q. Okay, and did you do that?

14 A. Yes, I did.

15 Q. And are the letters submitting the AFEs to Yates
16 and to Hayes Properties marked Exhibit 2D?

17 A. Yes, that is correct.

18 Q. Okay. Now, since you sent one to Hayes, had you
19 had contact with Hayes Properties also?

20 A. Yes, I had. I had contacted them as well.

21 Q. By phone?

22 A. By telephone, yes, and by mail.

23 Q. Okay. Now, at that time you were proposing a
24 north-half well unit with your exhibit. You originally
25 thought that you would form --

1 A. That is correct, yes.

2 Q. -- a north-half well unit?

3 And was a pooling application filed on the north
4 half of this section?

5 A. Yes, it was.

6 Q. And when was that filed?

7 A. I believe that was filed on September the 24th.

8 Q. And that was originally set for the October -- I
9 don't know the exact date -- the second hearing in October?

10 A. I believe -- I think it was the 15th.

11 Q. Something like that. I can't remember. It was a
12 late hearing in October.

13 And that case was Number 11,634, and that was the
14 case that was dismissed earlier today?

15 A. Yes, it was October the 20th.

16 Q. 20th.

17 A. That's what it is.

18 Q. Thank you. I don't remember the exact date, Mr.
19 Examiner.

20 Now, before that hearing, what happened with
21 respect to Yates?

22 A. Yates indicated that they needed additional time
23 with which to review our proposal and the operating
24 agreement as well, and needed additional time to make a
25 decision on what they wanted to do here, so they requested

1 that we continue the hearing to the November 5th hearing.

2 Q. November 5th or 7th -- It might have been the
3 7th?

4 A. Okay --

5 MR. CARROLL: It was the 7th.

6 THE WITNESS: That is correct, November 7th,
7 excuse me.

8 Q. (By Mr. Bruce) Yes. Now, at that point did they
9 mention anything about your original letter not containing
10 an AFE, et cetera?

11 A. No they did not. We had had communications. I
12 was aware that they were likely to participate with their
13 interest and had provided them with -- acknowledging that
14 fact with the AFE and operating agreement, as I already
15 mentioned.

16 Q. Had they threatened to file a motion to dismiss
17 your first original pooling case?

18 A. Yes, they had.

19 Q. Okay. If you did not continue the case?

20 A. If we did not continue the case, they had
21 threatened to file a motion to dismiss.

22 Q. Okay.

23 A. So we agreed to go on and continue it to provide
24 for additional time.

25 Q. Okay. Now, Yates as unit operator of the -- and

1 I think Ms. Mauritsen from Yates later provided you with, I
2 think, a current list or correct list of all the working
3 interest owners under the Stonewall Unit?

4 A. That is correct.

5 Q. Okay. And did you notify them of your north-half
6 well proposal, the parties you hadn't previously notified?

7 A. Yes, I did.

8 Q. And are those letters dated October 24th and
9 submitted as Exhibit 2E?

10 A. Yes, that is correct.

11 Q. Okay. Now, while this was going along -- Did you
12 plan on meeting with Yates before any hearing?

13 A. Yes, I had mentioned to Ms. Mecca Mauritsen, who
14 was now handling the matter over there, that I think it
15 would be in our best interests to get together and discuss
16 this, and she was receptive to that idea.

17 Q. When was the meeting originally scheduled for?

18 A. It was scheduled for October the 30th.

19 Q. Was that meeting held on that date?

20 A. No, it was not. The day after I scheduled that
21 meeting, I called Ms. Mauritsen and I explained to her that
22 I had a conflict, a meeting in Houston that I had to
23 attend, and that we would need to reschedule that
24 particular meeting, which we subsequently did reschedule
25 for November the 7th.

1 Q. Okay. Now, the hearing was originally scheduled
2 for November 7th in Case 11,634. A few days before that
3 hearing, Yates did file a motion to dismiss, did they not?

4 A. Yes, they did.

5 Q. Was that contrary to your prior understanding
6 with Yates?

7 A. Yes, it was. It was my understanding that if we
8 continued the case originally, that they would not raise
9 the issue with regard, particularly, to the failure to
10 specify their opportunity to participate in the well in the
11 original letter, proposal letter.

12 Q. Okay. Now, we did -- you did agree to continue
13 the hearing to the November 21st, did you not?

14 A. Yes, as we were meeting on November the 7th, yes,
15 we agreed to continue it and discuss --

16 Q. You set up a meeting in Artesia?

17 A. We set up a meeting in Artesia, myself and Bill
18 Siruta, the generating geologist. We drove from Midland to
19 Artesia to meet with them.

20 Q. Okay, and you still wanted to resolve matters
21 with --

22 A. Yes, we did.

23 Q. -- with Yates?

24 A. Yes.

25 Q. Now, at this point also, Mr. Carr had to step

1 aside as InterCoast's attorney, did he not?

2 A. That is correct. Mr. Carr had been handling it
3 up at this point, and Yates had requested that he step
4 aside, citing a conflict of interest.

5 Q. Okay. Now, when you had your meeting with Yates
6 in Artesia, what was the outcome of that meeting?

7 A. Well, the main problem here was that Yates
8 thought that a well that should be drilled in there should
9 be located in the northwest quarter at an unorthodox
10 location, 990 out of the northwest quarter. Our geology,
11 however, was proposing -- supported a well in the northeast
12 quarter at a 990-out-of-the-northeast-corner location.

13 And so what came of the meeting was that
14 InterCoast suggested that instead of forming a laydown 320-
15 acre proration unit here, that we stand the units up,
16 making an east-half and a west-half unit, and allow both
17 parties to drill their preferred location, Yates drilling
18 theirs in the northwest quarter, InterCoast to drill theirs
19 in the northeast quarter --

20 Q. Okay.

21 A. -- both parties feeling that the other's location
22 was too risky.

23 Q. Did -- Now, Yates had a hearing today on their
24 proposed location in the northwest quarter?

25 A. Yes, they did.

1 Q. Now, this -- doing away with the north-half unit
2 and forming standup units, was -- Did Yates seem agreeable
3 to this proposal?

4 A. Yes, they did. They seemed receptive to it,
5 leaving the meeting, they thought it was a workable plan,
6 but they needed to run it through their management and
7 confirm approval with their management.

8 Q. Okay.

9 A. But according to the members of the Yates group
10 that was there, it seemed like a workable solution.

11 Q. Okay. Now, as a result, the Application that
12 InterCoast is here for today, 11,666, was filed, asking for
13 a force-pooling of the east half; is that correct?

14 A. That is correct.

15 Q. Okay. Now, did you then notify all of the
16 interest owners in the east half or make a well proposal to
17 all interest owners in the east half?

18 A. Yes, I did.

19 Q. And are those proposals marked and submitted as
20 Exhibit 2F?

21 A. Yes, they are.

22 Q. Now, this exhibit dated -- or these letters dated
23 November 11th, they went out to quite a few people. Are
24 all of the people who were notified of the east-half
25 proposal the same as who had notice of the north-half

1 proposal?

2 A. Yes, the ownership was common --

3 Q. The ownership --

4 A. -- although it -- they seemed to vary --

5 Q. The percent of the interest might vary --

6 A. -- on the interest.

7 Q. -- but the people were the same?

8 A. That is correct.

9 Q. And this letter also gave notice of the
10 proposed -- This was filed in time for the December 5th
11 hearing, and your letter, Exhibit 2F, also gave notice of
12 that December 5th pooling hearing, correct?

13 A. Yes.

14 Q. And once again, this was necessitated by the
15 short -- You had this farmout that you had to comply with?

16 A. Yes, that we wanted to move the process along,
17 because our Kerr-McGee farm-in had a term on it of 120 days
18 from receipt.

19 Q. Okay. Now, what about -- were -- Both Yates and
20 InterCoast are seeking to force-pool the east half with
21 wells at the same location. We're here basically on
22 operatorship, I guess, Mr. Quinn.

23 What were your discussions with Yates about
24 operating the east half?

25 A. Well, alluding to the meeting that we had on

1 November 7th, we felt -- or the impression that we had
2 after that meeting was that each party seemed satisfied
3 with the plan that Yates drill their preferred location in
4 the northwest quarter, InterCoast would drill and operate
5 its prospect in the northeast quarter.

6 Q. Did Mecca Mauritsen later call you and state that
7 Yates wanted to operate?

8 A. Yes, Mecca did call me after we had filed this,
9 and broached with me the idea of Yates operating the east-
10 half the unit, and I indicated to her that we were
11 adamantly opposed to that --

12 Q. Okay.

13 A. -- that we preferred to drill and operate that
14 well.

15 Q. And shortly thereafter, Yates filed its own
16 pooling application?

17 A. Yes, they did.

18 Q. And this had the effect of again delaying the
19 hearing on this matter another --

20 A. Yes.

21 Q. -- couple of weeks?

22 A. Yes, another continuance --

23 Q. Okay.

24 A. -- from December 5th to this hearing.

25 Q. Because of the correspondence and the activity

1 over the last few months, in your opinion, have you made a
2 good-faith effort to obtain the voluntary joinder of all
3 working interest owners in the proposed well?

4 A. Yes.

5 Q. Let's move on to Exhibit 3, Mr. Quinn. Could you
6 just briefly identify that for the Examiner and describe
7 well costs?

8 A. Yes, this is InterCoast Oil and Gas Company's
9 authorization for expenditures for the drilling of the
10 proposed well in the northeast quarter, which is designated
11 our State of New Mexico 20-1 well.

12 Q. Okay, what is the completed well cost?

13 A. The completed well cost through zone of interest,
14 \$693,425.

15 Q. Is the proposed well cost in line with costs
16 charged by other operators in the area for similar wells?

17 A. Yes.

18 Q. Do you have an estimate of overhead and
19 administrative charges while drilling this well, drilling
20 and producing this well, if it is successful?

21 A. Yes.

22 Q. And what are those rates?

23 A. Drilling well rate \$5819, and producing well rate
24 \$564.

25 Q. And are these comparable to Ernst and Young

1 rates?

2 A. Yes, they are.

3 Q. And are these costs also in line with costs
4 charged by other operators in this area?

5 A. Yes.

6 Q. And do you recommend that these figures be
7 incorporated into any order that results from this hearing?

8 A. Yes.

9 Q. In the event someone is bound by the pooling
10 order, do you request that the overhead charges be
11 escalated according to the COPAS accounting procedure?

12 A. Yes.

13 Q. And is a copy of that accounting procedure that
14 you propose marked and submitted as Exhibit 4?

15 A. Yes, it is.

16 Q. Does InterCoast seek to be designated as operator
17 of the proposed well?

18 A. Yes, we do.

19 Q. And why do you request that?

20 A. Well, we request that in that we generated the
21 prospect, InterCoast was the first to propose it,
22 InterCoast owns the single highest cost-bearing interest in
23 the proposed unit.

24 Q. What about the drillsite tract itself, the
25 northeast quarter? What is your interest in that?

1 A. Our interest in that tract is approximately 48
2 percent.

3 Q. Do you have a rough idea of Yates Petroleum's
4 interest in the drill site?

5 A. Yates' interest would be a percentage of 5
6 percent contractual interest in the northeast quarter.

7 Q. Okay. Is InterCoast qualified to operate the
8 proposed well?

9 A. Yes, we are.

10 Q. How many wells does InterCoast operate?

11 A. Intercoast operates in excess of 700 wells.

12 Q. What about nonoperated interests?

13 A. Overall, we have interests in excess of 1200
14 wells.

15 Q. If the Division decides to grant InterCoast's
16 request, do you request expedited approval of an order on
17 this well?

18 A. Yes, we do.

19 Q. Because of the farmout?

20 A. Because our farmout is -- the term is running on
21 our farmout, yes.

22 Q. Is Exhibit 5 your affidavit of notice regarding
23 giving notice of the pooling application to the interest
24 owners in the well?

25 A. Yes.

1 Q. And the certified return receipts were part of
2 Exhibit 2F, your November 11th letters, to the interest
3 owners?

4 A. Yes.

5 Q. And is Exhibit 6 simply my copy of notice to the
6 offset operators and lessees of the proposed unorthodox
7 location?

8 A. Yes.

9 Q. Mr. Quinn, were Exhibits 1 through 6 prepared by
10 you or compiled under your direction from company business
11 records?

12 A. Yes.

13 Q. And in your opinion, is the granting of
14 InterCoast's Application and the denial of Yates'
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, at this time I'd move
19 the admission of InterCoast Exhibits 1 through 6.

20 MR. KELLAHIN: No objection.

21 EXAMINER CATANACH: Exhibits 1 through 6 will be
22 admitted as evidence.

23 MR. BRUCE: Pass the witness.

24 EXAMINER CATANACH: Mr. Kellahin?

25 MR. KELLAHIN: Thank you, Mr. Examiner.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Quinn, you testified that the first InterCoast pooling application was filed on September 24th --

A. That is correct.

Q. -- of 1996?

A. Yes.

Q. And was it you that authorized Mr. Carr to file that on behalf of your company?

A. Yes, it was.

Q. You're aware now -- Were you aware then that you had filed the pooling application before you had submitted to Yates an AFE for the well?

A. Yes.

Q. Were you aware that you filed the pooling case before you defined for Yates the proposed spacing unit for that well?

A. No, I was not.

Q. Okay. Let's look at your farmout request. It's the August 30th letter. I think Mr. Bruce had you introduce that as --

A. Yes.

Q. It's in this package of Exhibit 2C, is it not, sir?

1 A. Yes, it is.

2 Q. And the first page says, Unit Petroleum
3 Corporation, but I assume that there is an identical letter
4 in here somewhere to Yates, is there not?

5 MR. BRUCE: It's actually part of Exhibit 2B.

6 THE WITNESS: And that's what it is, 2B --

7 MR. KELLAHIN: All right.

8 THE WITNESS: -- and I neglected to stipulate a
9 proposed unit on the Yates letter, that is correct.

10 Q. (By Mr. Kellahin) Okay. Were you aware at this
11 time that the deep Morrow gas spacing in New Mexico is 320
12 acres?

13 A. Yes, I was.

14 Q. At the time you filed the Application, did you
15 know all the working interest owners in the north half of
16 Section 20?

17 A. I knew all of the record title owners in the
18 north half of Section 20.

19 Q. One of the documents of record is the Stonewall
20 unit agreement for which Yates is the operator?

21 A. Yes.

22 Q. Will you admit that that is a very complicated
23 ownership arrangement under that unit?

24 A. Yes, it is.

25 Q. And had you mastered that ownership at the time

1 you filed that pooling application?

2 A. Not completely, but we had notified the operator
3 under that particular Stonewall agreement.

4 Q. But there are working interest owners in the
5 north half that were not notified?

6 A. Not record title owners that were not notified.

7 Q. Yes, sir, that's not my question. My question is
8 that you notified Yates and Hayes, right?

9 A. That is correct.

10 Q. And by looking at the title documents of record,
11 there would be interest owners other than Hayes and Yates
12 that would have an interest in the northwest quarter?

13 A. Under the Stonewall agreement --

14 Q. Yes, sir.

15 A. -- contractual interests, yes.

16 Q. Yes. Mecca Mauritsen provided you with the
17 information as to the proper allocation of percentages and
18 as to the identify of those owners, did she not?

19 A. Yes, she did, subsequent to that date, yes.

20 Q. All right. Is this your first force-pooling
21 experience in New Mexico, Mr. Quinn?

22 A. Yes.

23 Q. At the time that you filed the compulsory pooling
24 application, you had a farmout from Kerr-McGee; am I
25 correct in understanding that?

1 A. Yes.

2 Q. Was the farmout agreement reduced to a written
3 document at that point?

4 A. Yes, it was.

5 Q. One of the -- I'm sorry.

6 A. I would have to check exactly that date, but yes,
7 my recollection is -- I'd have to get into my file -- we
8 did have that reduced to writing.

9 Q. What is the date of the written document that
10 describes the terms and conditions of the farmout from
11 Kerr-McGee?

12 A. It is dated August of 1996, and I will have to
13 get into my -- take a look at my file to tell you that
14 exact date.

15 Q. Okay. The -- You've testified that the terms and
16 conditions of that farmout agreement were such that you
17 were supposed to commence the well under the farmout within
18 120 days of the effective date of that agreement?

19 A. Yes, that is correct, 120 days from the date of
20 that agreement.

21 Q. All right. What day does that turn out to be
22 when you add the 120 days to the date of the agreement?

23 A. That is January the 18th.

24 Q. All right. Does the agreement provide that you
25 have the control to get an extension of that date?

1 A. Yes, we have requested and just this week have
2 received a 30-day extension to that farmout agreement.

3 Q. So the farmout, as of today, would expire on what
4 date, if other action is not taken?

5 A. Thirty days from January the 18th, or February
6 the 17th, I believe that is.

7 There was some concern here with regard to being
8 able to obtain an extension to the farmout agreement,
9 because of Kerr-McGee's commitment to sell their properties
10 to Devon. So we had -- We were not going to be able to
11 receive any extension just by virtue of approval from Kerr-
12 McGee. It had to go through committee to obtain extension
13 to the farmout agreement. So there was a great deal of
14 concern on whether or not we could obtain extension.

15 Q. All right. Apart from the extension, the farmout
16 was scheduled to expire on January 18th?

17 A. Yes.

18 Q. Would the farmout expire if Yates were to drill,
19 commence drilling the well within the spacing unit by the
20 18th of January?

21 A. No, it would not.

22 Q. So the farmout is not conditioned in such a way
23 that the well would have to be drilled and operated by
24 InterCoast in order for InterCoast to earn its share under
25 the farmout?

1 A. That is correct.

2 Q. The -- You have contended, Mr. Quinn, that
3 InterCoast has a 47.5-percent interest in the spacing unit?

4 A. No, I have not.

5 Q. In the northeast quarter tract?

6 A. Yes, on a unit basis, as reflected on the Exhibit
7 A, a 24.1-percent unit interest.

8 Q. Okay. What percentage interest in the northeast
9 quarter do you believe Kerr-McGee controls?

10 A. Kerr-McGee controls approximately 48 percent of
11 the northeast quarter.

12 Q. Okay.

13 A. Owns 48 percent.

14 Q. Within the northeast quarter, there is also an
15 interest under Diamond Head Properties, L.P., is there not,
16 sir?

17 A. Yes, that is correct.

18 Q. Does that not reduce the Kerr-McGee 47.5-percent
19 interest in the northeast quarter?

20 A. That takes into consideration InterCoast's
21 interest. The Diamond Head interest is figured into that.

22 Q. Okay.

23 A. So what you have here is approximately -- Diamond
24 Head owns -- Claremont owns 5 percent, Diamond Head owns
25 approximately 47 percent, and Kerr-McGee owns approximately

1 48. That may come out to slightly over 100, but that's
2 approximately what --

3 Q. Give or take --

4 A. Yeah.

5 Q. -- approximate numbers for today's hearing.

6 Was there a time during the negotiations with
7 Yates that you were under the impression and were claiming
8 that InterCoast had control through the Kerr-McGee farmout
9 of 47.5 percent of the working interest in the entire east
10 half of the section?

11 A. Yes, that is correct, our ownership report that
12 we had prepared covering that tract interpreted --
13 incorrectly interpreted the assignment from the Redfern
14 group to Kerr-McGee as including all of the Redfern family
15 interest.

16 As it turns out, the interest of Rosalind Redfern
17 was not subject to that assignment, so we were -- we erred
18 in our ownership report as to that northeast quarter. We
19 were under the impression that we had farmed in 95 percent
20 of that northeast quarter, but subsequent information
21 reflected that, in fact, Rosalind Redfern's interest was
22 not part of that assignment, and that interest, we
23 recognize now, is owned by Diamond Head Properties.

24 Q. All right. Rosalind Redfern, if you will --

25 A. Yes.

1 Q. -- for the Examiner's benefit, is, for our
2 purposes, the same as Diamond Head Properties?

3 A. Yes.

4 Q. She's the principal there?

5 A. Yes.

6 Q. All right. And at this point, Diamond Head
7 Properties is standing on the sidelines and has deferred to
8 the Examiner to make the decision on operations?

9 A. Yes, they have.

10 Q. All right. And whoever is selected operator,
11 then, I presume that Mrs. Redfern is going to proceed to
12 participate?

13 A. Yes, that's what she has --

14 Q. I think she's told everybody that?

15 A. Yes.

16 Q. All right. So when we look now at this point in
17 the east half of Section 20, the interest committed to
18 InterCoast is about 24 percent?

19 A. Yes, that is correct.

20 Q. When we go down the list, you said that there
21 were some of these parties in the east half that had
22 working interest ownership under the Stonewall unit that
23 had signed your AFE?

24 A. That is correct.

25 Q. Can you identify for me who those are --

1 A. Yes.

2 Q. -- who those individuals are?

3 A. Yes, they are. It's -- on the first page, Ernie
4 Bello; Frances B. Bunn; Sanford J. Hodge, III; and William
5 B. Oliver Trust.

6 Q. Under the Kerr-McGee farmout, does Kerr-McGee
7 retain an overriding percentage under that arrangement?

8 A. Yes, they are.

9 Q. And what percentage of override do they receive?

10 A. They are retaining an override equal to the
11 difference between 25 percent and lease burdens.

12 Q. Okay. Do you know, or have you calculated at
13 this point what InterCoast's net revenue interest is in the
14 east half of Unit 20?

15 A. On a unit basis?

16 Q. Yes, sir, for the spacing unit.

17 A. It is 75 percent of the 24-percent working
18 interest.

19 Q. Okay.

20 A. So 18 percent.

21 Q. The farmout proposal you sent to Yates was by
22 letter of August 30th. Thereafter -- and I'm not sure the
23 date you told me. It was mid-September, I think, that you
24 had a conversation with Janet Richardson of Yates, for
25 which she advised you that Yates was not likely to farm out

1 to you, but wanted an AFE and an operating agreement from
2 you? Something to that effect?

3 A. She indicated that they would probably
4 participate.

5 Q. Did she ask you to send her an AFE and an
6 operating agreement?

7 A. Yes.

8 Q. Do your notes indicate when she made that request
9 to you?

10 A. That was September the 17th.

11 Q. And the force-pooling application is filed on the
12 24th. She's asked for the information on the 17th. When
13 did you send her the operating agreement and the AFE?

14 A. October the 1st, under letter dated October the
15 1st.

16 Q. The proposal for the east-half spacing unit, when
17 you send a specific well proposal, including the AFE, that
18 went out to Yates and Hayes by letter dated when, sir?

19 A. For the --

20 Q. -- east half.

21 A. For the east half? That went out following our
22 November 7th meeting where we agreed to reorient the units
23 on a north-half basis, and those went out by letters dated
24 October the 24th --

25 Q. Okay.

1 A. -- if I understand your question correctly.

2 Q. Did you also send at that point the well proposal
3 to the other working interest owners in the east half of
4 20?

5 A. Yes, I did.

6 Q. On the meeting on November 7th, did Mr. Randy
7 Patterson of Yates advise you that he needed management
8 approval to approve InterCoast as the operator of the well
9 in the northeast quarter?

10 A. No, that was not presented to me in that manner.
11 He needed management approval to agree to the reorientation
12 of units which would have allowed the drilling of the two
13 wells, the one Yates was interested in, as well as the one
14 InterCoast.

15 Q. Mecca Mauritsen then followed that up with a
16 letter to you confirming that Yates was agreeable to the
17 reorientation of the spacing unit, but, in that same
18 communication, that Yates desired to operate the well?

19 (Off the record)

20 Q. (By Mr. Kellahin) Did you receive a
21 communication from Yates in letter form, confirming their
22 willingness to reorient the spacing units to east-
23 half/west-half?

24 A. Yes, I did.

25 Q. All right. Did Yates commit to you in writing

1 that they were agreeable to having InterCoast operate the
2 well in the east half?

3 A. No, they did not.

4 Q. Did they communicate to you verbally that they
5 had management approval to accept InterCoast as the
6 operator in the east half?

7 A. No.

8 Q. On December 12th, 1996, Mr. Quinn, did you write
9 a letter to Mecca Mauritsen of Yates in which you -- one of
10 the paragraphs advised her that you had not been provided
11 an AFE by Yates formally proposing Yates operate and drill
12 the well in the east half of Section 20?

13 A. Yes, I did.

14 Q. In fact, that was not correct, was it?

15 A. That is correct, the proposal that Mecca had sent
16 out had been sent just to InterCoast, no attention, and the
17 proposal got routed incorrectly and ended up getting buried
18 in somebody else's "in" box, and it never made it to my
19 desk. Not until Mecca advised me that she had a return
20 receipt on it did I know that one had been sent out.

21 Q. Did you receive a letter from Mecca Mauritsen,
22 dated November 22nd, in which she lists a number of reasons
23 for Yates' decision that they would like to operate the
24 east half of Section 20 and itemizing those items?

25 A. Yes.

1 Q. In Mecca's letter to you, Mr. Quinn, there's a
2 December letter, 13th, 1996, in which she advises you, I
3 believe she transmitted this by facsimile. Did you get her
4 December 13th letter?

5 A. You'll have to refresh my memory and what it
6 contained.

7 Q. Yeah, it says in the second paragraph -- I'm
8 sorry, in the last paragraph, it says that -- to the
9 effect, Yates is certainly willing to commit to drilling --
10 commencing drilling the well by the 17th of 1997, if you'll
11 agree to let them do so.

12 A. Yes, I recall that.

13 Q. All right. Yates' commitment to InterCoast to
14 commence the well in time to preserve your farmout position
15 was not sufficient enough to cause your company to allow
16 Yates to operate?

17 A. That is correct.

18 Q. All right. Is there a financial incentive to
19 InterCoast to be operator, as opposed to Yates?

20 A. To the best of my knowledge, our motivations are
21 based on being able to represent our best interests here,
22 ensuring that the well will, in fact, be commenced in a
23 timely manner.

24 Q. Okay. When you're in that position, do you rely
25 on other operators' commitments to you in writing that they

1 will commence their well by a certain date in order to save
2 your contractual arrangements? That's not unusual to have
3 that occurrence, is it, sir?

4 A. Would you repeat the question?

5 Q. Yes, sir, you said you want to be able to control
6 commencing the well in time to save the farmout.

7 A. Yes.

8 Q. Among all the wells you operate, is it not
9 unusual to let someone else operate, even though that
10 operation will allow you to earn farmouts?

11 A. Yes, I'm sure it happens.

12 Q. It happens all the time, doesn't it?

13 A. Yes.

14 Q. Okay. And Yates' assurance to you in writing
15 that they would do so is still not sufficient?

16 A. It's only sufficient in the event they prevail as
17 operator under this particular hearing. Otherwise, we
18 prefer to operate. It's a prospect we generated, it was
19 our idea, we proposed it first, we've worked with them
20 fairly and tried to address all of their concerns. And
21 based upon representations Yates has made to us, I believe
22 that InterCoast is not only desirous but is entitled to
23 operate this particular unit.

24 Q. The percentage controlled by Yates, are you aware
25 what percentage in the east half of 20 they control at this

1 point?

2 A. I know what Yates owns. I suppose that they're
3 going to take the position that they control all of the
4 interests covered under the Stonewall unit operating
5 agreement.

6 Q. What is the nearest well that InterCoast operates
7 in this area?

8 A. I can't say.

9 Q. Do you have a working interest in any of the
10 Morrow wells in this area?

11 A. Do not.

12 Q. You made the statement to Mr. Bruce when you
13 described the AFE as being typical of charges in the area.
14 Did you have a specific comparison to make that statement
15 about --

16 A. In that particular general area?

17 Q. Yeah.

18 A. No.

19 Q. Okay. You don't prepare and review AFEs as part
20 of your work, do you, Mr. Quinn?

21 A. No.

22 Q. In your proposals to Yates, did you describe any
23 urgency in formulating an agreement with regards to this
24 well, based upon your contingencies in the farmout?

25 A. No, not in any written correspondence.

1 Q. Yes, sir, I couldn't find any. I couldn't find
2 any written correspondence --

3 A. No.

4 Q. -- in which you advised them --

5 A. That's what I said, no.

6 MR. KELLAHIN: Thank you, Mr. Examiner.

7 REDIRECT EXAMINATION

8 BY MR. BRUCE:

9 Q. A couple of follow-up questions, just on the
10 operatorship, Mr. Quinn. I mean, Yates is certainly a
11 qualified operator?

12 A. Absolutely.

13 Q. But you also believe that InterCoast is a
14 qualified operator?

15 A. Yes.

16 Q. InterCoast has only been in New Mexico -- what?
17 A couple, three years?

18 A. That is correct.

19 Q. So as a result, it operates fewer wells?

20 A. Yes.

21 MR. BRUCE: I have nothing further, Mr. Examiner.

22 EXAMINATION

23 BY MR. CARROLL:

24 Q. On your Exhibit A showing all the interest,
25 ownership interests in the east half --

1 A. Yes.

2 Q. -- what percentage is committed to InterCoast?

3 A. At this time, only the InterCoast interest is
4 committed to the drilling of this -- or the Kerr-McGee
5 interest is committed to the drilling of this well, which
6 is InterCoast -- in addition to the parties that I
7 mentioned that we had received signed AFEs from, which are
8 part of the Stonewall unit operating group. So --

9 Q. What percentage interest is covered by the
10 Stonewall unit operating agreement?

11 A. It covers 5 percent of the drill site, an
12 undivided 5 percent of the 160-acre drill site, and 100
13 percent of the southeast quarter.

14 MR. BRUCE: Slightly over 50 percent, Mr. --

15 THE WITNESS: Yes, that is correct. It's
16 fifty- --

17 Q. (By Mr. Carroll) And that interest is
18 uncommitted at this time?

19 A. -- 52 percent.

20 Q. That interest is uncommitted at this time?

21 A. Yeah, pending this hearing, yes.

22 Q. Unit Petroleum is uncommitted?

23 A. That is correct, but they are under the --

24 Q. They are under --

25 A. They are under the operating agreement of the

1 Stonewall operating agreement. They are --

2 Q. And who's the operator --

3 A. -- contractual --

4 Q. -- under that agreement?

5 A. Yates. But again, I would emphasize that we're
6 -- It covers 5 percent of the northeast quarter, and the
7 interests that we have farmed in, in addition to Diamond
8 Head, is not subject to this Stonewall unit operating
9 agreement, which represents approximately half of the unit.

10 Q. Okay, and you're aware that Diamond Head is
11 neutral in this case?

12 A. Yes, yes, I am.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. The northeast quarter, just at this point, is
16 owned 24 percent by InterCoast by virtue of the farmout
17 agreement from Kerr-McGee.

18 A. Yes, sir.

19 Q. 23 percent --

20 MR. BRUCE: The northeast quarter or the --

21 Q. (By Examiner Catanach) Well, the northeast --

22 A. 24 percent -- Actually, it's 48 percent of the
23 northeast quarter. But on a unit basis the interest would
24 be 24 percent. But as to the northeast-quarter drill site,
25 it's 48 percent.

1 Q. And so that would -- What percentage would that
2 give Diamond Head in the northeast quarter?

3 A. On a -- In the northeast quarter?

4 Q. Northeast quarter only.

5 A. 47 percent.

6 Q. And then the 5 percent is owned by the --

7 A. By Claremont, which is subject to the Stonewall
8 unit agreement.

9 Q. I'm sorry, by Claremont?

10 A. Claremont Corp.

11 Q. Claremont, okay.

12 FURTHER EXAMINATION

13 BY MR. CARROLL:

14 Q. Okay, tell me -- Clarify this. Then there's
15 actually -- On Exhibit A, it can be split into three
16 interests: InterCoast with 24 percent; Diamond Head,
17 neutral, 23.5 percent; and the rest of it is under this
18 Stonewall operating agreement?

19 A. Yes, sir, that would be correct.

20 FURTHER EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. So at this point Intercoast controls 24 percent
23 of the east-half spacing unit?

24 A. Yes.

25 Q. And do you consider the interest that you

1 mentioned before, the Bello, the Bunn, the Hodge and the
2 Oliver Trust interest, as uncommitted, even though you have
3 signed AFEs from them? Or do you consider those to be
4 subject to the unit agreement?

5 A. I consider those to be subject to the unit
6 operating agreement, yes.

7 Q. So you can't say that you have those interests?

8 A. That is correct.

9 Q. Okay. Now, when did you first propose the east
10 half?

11 A. That was proposed subsequent to our meeting with
12 Yates whereby we made the decision to reorient the unit to
13 provide for the two wells and -- on October the -- excuse
14 me, November the 11th.

15 Q. That's when you officially sent out a letter to
16 each of these interest owners?

17 A. Yes.

18 Q. November 11th?

19 A. Yes, subsequent advising them of our meeting with
20 Yates and that we were revising and filing a new
21 application for an east half.

22 Q. Okay, that was sent out to all of the interest
23 owners in the east half?

24 A. Yes, that is correct.

25 Q. And that included an AFE?

1 A. Yes, it did.

2 Q. Okay. When did you file for pooling in the east
3 half?

4 A. That was filed on November the -- it was either
5 -- I would say it was a day after this, approximately
6 November the 12th.

7 Q. The reason being, you had a farmout agreement
8 deadline?

9 A. That is correct, and we stipulated that in our
10 proposal letter, as to why.

11 Q. You were still trying to negotiate at that point
12 in time with these interest owners? I mean, even though
13 you had filed a pooling case, were you still trying to talk
14 to these interest owners, to reach a voluntary agreement?

15 A. Yes, the ones who I could talk to, yes.

16 Q. And you do have a 30-day extension for drilling
17 the well at this point?

18 A. Yes, sir, I do, from January 18th, 30 days.

19 Q. Until February 17th or 18th?

20 A. February 17th or 18th, right.

21 Q. So you don't have to commence drilling a well
22 until that time?

23 A. That is correct.

24 Q. And as I understand it, to maintain your
25 interest, you don't have to drill the well?

1 A. That is correct, yes.

2 Q. Yates could drill the well, and you could still
3 retain your Kerr-McGee interest?

4 A. Yes.

5 EXAMINER CATANACH: Anything else?

6 MR. BRUCE: No, sir.

7 MR. KELLAHIN: No, sir.

8 EXAMINER CATANACH: The witness may be excused.

9 MR. BRUCE: Call Mr. Siruta to the stand.

10 WILLIAM A. SIRUTA,

11 the witness herein, after having been first duly sworn upon
12 his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Will you please state your name and city of
16 residence for the record?

17 A. William Siruta of Midland, Texas.

18 Q. By whom are you employed and in what capacity?

19 A. Geologist with InterCoast Oil and Gas.

20 Q. Have you previously testified before the Division
21 as a petroleum geologist?

22 A. Yes.

23 Q. And were your credentials as an expert geologist
24 accepted as a matter of record?

25 A. Yes.

1 Q. Does your area of responsibility at InterCoast
2 include southeast New Mexico?

3 A. Yes.

4 Q. And are you familiar with the matters -- the
5 geologic matters pertaining to this Application?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I would tender Mr.
8 Siruta as an expert petroleum geologist.

9 EXAMINER CATANACH: He is so qualified.

10 Q. (By Mr. Bruce) Mr. Siruta, let's move on to your
11 -- have you identify your first exhibit, Exhibit Number 7,
12 and could you identify that for the Examiner and discuss
13 the primary zone of interest in this area?

14 A. It's a nine-section plat of the area of interest
15 with the proposed drill site in Section 20 indicated by a
16 red dot. The circles that are colored green are Morrow
17 producers in this area. The numbers beside them are -- The
18 top number is the gas cum for the well, second number is
19 the condensate or oil cum, the third number is the present
20 gas daily rate for the well. That's essentially it. The
21 checkered slashed outline is the east-half unit that we're
22 proposing for this well.

23 Q. Okay. Why don't you move on to your Exhibit
24 Number 8 and identify that for the Examiner?

25 A. 8 is the exact same plat. It depicts a structure

1 based on the base of the Morrow massive shale, which is a
2 predominant marker in this area.

3 Q. Okay, and let's move on to the primary zone of
4 interest. Maybe -- I'll just refer you to your Exhibits 9
5 and 10, and could you discuss those for the Examiner?

6 A. Both of these exhibits are isopach -- net isopach
7 maps of the Morrow pay sands. I consider two major sands
8 here, the "B" -- what I call the "B" and the "C" sand. On
9 my maps the circled wells that are colored in green are
10 wells that actually produce from those sands that I have
11 mapped.

12 What these maps depict is that I believe both of
13 these are fluvial-type sands that are being deposited here,
14 a channel trending from the northwest to the southeast,
15 depicting that in each one of these sands we anticipate
16 getting approximately 10 feet of pay.

17 Q. Okay, and is 10 feet of pay approximately what
18 you think is necessary in order to have a commercial well?

19 A. I believe so. If you look at the entire trend
20 out here, that holds fairly true.

21 Q. And compare it with the production map?

22 A. Yes.

23 Q. Okay. Let's discuss your cross-section. Could
24 you identify Exhibit 11 for the Examiner and go through
25 this Exhibit?

1 A. This is a cross-section with -- I also have
2 marked on all my other plats as a dashed line going from
3 the well in the southeast of Section 17 through the
4 proposed location to the well in the northwest of 21. And
5 basically I'm just trying to depict the different sands out
6 here, illustrating what my "B" and "C" sands are.

7 This is hung on a datum which is the -- or hung
8 stratigraphically on the base of the massive shale. The
9 sands below are called the lower Morrow sands and are
10 usually wet in this area until you get up on some kind of
11 little flexure or structure. The sands that I call "B" and
12 "C", which is really my own nomenclature, are the main pays
13 out here as I see it.

14 Q. Okay. Do you believe that drilling at the
15 proposed unorthodox location will allow the interest owners
16 a better opportunity to recover Morrow sands in paying
17 quantities?

18 A. Yes.

19 Q. Do you have a recommendation for the Examiner as
20 to a risk penalty which should be assessed, if any interest
21 owners in this well go nonconsent under a pooling order?

22 A. I recommend cost plus 200 percent.

23 Q. And what do you base this upon?

24 A. A well drilled here at a depth of 11,250 is
25 fairly expensive, and there's a risk here of, I think, not

1 encountering a thick enough sand to be productive, and also
2 a risk of depletion in here. I think there is some risk
3 that these wells may have drained a significant amount of
4 reserves under our lease here.

5 Q. Okay. Final matter before we close up, but did
6 you attend the meeting in Artesia with Yates?

7 A. Yes, I did.

8 Q. And what was your impression of the meeting?

9 A. We discussed -- I discussed with Mr. Ray Beck,
10 who is the senior geologist in their geological department,
11 about our two locations, and we basically came to an
12 impasse. He loved his and hated mine, and I loved mine and
13 hated his. So we were kind of at a point where we couldn't
14 really conclude what was the right thing to do.

15 And so we finally, after discussion, decided that
16 what we would like to do is, Yates would drill their well
17 as a west-half standup, and we would drill our well as an
18 east-half standup, with Yates operating the northwest well
19 and InterCoast operating the northeast well.

20 Q. Okay. In your opinion, will the granting of
21 InterCoast's Application and the denial of Yates'
22 Application be in the best interests of conservation, the
23 prevention of waste and the protection of correlative
24 rights?

25 A. Yes.

1 Q. And were Exhibits 7 through 11 prepared by you or
2 under your direction?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I tender for admission
5 InterCoast Exhibits 7 through 11.

6 EXAMINER CATANACH: Any objection?

7 MR. KELLAHIN: No objection.

8 EXAMINER CATANACH: Exhibits 7 through 11 will be
9 admitted as evidence.

10 Mr. Kellahin?

11 CROSS-EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Mr. Siruta, when I look at your cross-section,
14 Exhibit 11, the primary target sands, at least on this two-
15 well cross-section, appear to be perforated above the datum
16 line?

17 A. Yes.

18 Q. What does the datum line signify?

19 A. It's just the base of the Morrow massive shale.
20 It was -- It's really kind of mislabeled. Rather than
21 calling it a datum, it's not truly a datum. The draftsman
22 that did this for me just put that on there. It's really a
23 stratigraphic -- It's hung on a stratigraphic point, which
24 is the base of the Morrow massive shale.

25 Q. Both InterCoast's well proposal and the Yates

1 proposal for the well at this location we're debating this
2 afternoon propose to go below the datum point on your map,
3 don't they?

4 A. Yes.

5 Q. Yeah, they're both going to drill several hundred
6 feet below that?

7 A. Yes.

8 Q. That's reasonable to do that, in your opinion?

9 A. Yes, I think -- you know, you have to -- I think
10 that Yates likes to drill under the Mississippian lime. We
11 like to just drill into the top of the Barnett; we feel
12 like that's sufficient. But both ways are acceptable.

13 Q. When I look at your isopachs, when we look how to
14 develop Section 20, it would appear under your
15 interpretation that a well in the southwest quarter is
16 probably the least preferable quarter section to put the
17 well in, right?

18 A. The southwest quarter?

19 Q. Yeah.

20 A. That's probably correct.

21 Q. And then the southeast quarter is the next best?

22 A. Probably.

23 Q. And then the northwest, under your
24 interpretation, picks some of this net "B" sand up that the
25 southeast wouldn't have, and yet when I look at your maps,

1 you have a preference for the northeast over the northwest?

2 A. That's correct.

3 Q. Yeah, because under your interpretation, I think
4 you pick up a little more of the "C" sand than Mr. Beck, I
5 think, was --

6 A. That's correct.

7 Q. -- interpreting?

8 A. I haven't seen his maps, but I think that's
9 correct.

10 Q. You didn't trade maps or discuss maps when you
11 met with Mr. Beck in November?

12 A. No, we really didn't.

13 Q. Oh, so it was a verbal discussion between you,
14 and you didn't look at each other's mapping?

15 A. No, we didn't feel like that was really
16 necessary.

17 Q. Okay, Mr. Beck didn't -- You wouldn't
18 characterize Mr. Beck's conversation with you as rejecting
19 your location? In fact, he thought you'd make a well
20 there, right?

21 A. He didn't think that we would make a commercial
22 well, was his thought. He felt like that the depletion at
23 my location would be very significant, and he felt like we
24 would find sand, probably pretty much as I have mapped, but
25 he felt like depletion was a real big concern to him, and

1 that's why he didn't like it.

2 Q. By standing up the spacing units, if I understand
3 it correctly, InterCoast has no interest in the west-half
4 spacing unit?

5 A. No, that's right.

6 Q. Yeah. And turning the orientation is not of
7 significance to you in terms of your interest, is it? Your
8 interest is in the northeast quarter?

9 A. That's correct.

10 Q. So regardless of orientation, your percentage is
11 the same?

12 A. That's correct.

13 Q. All right. And Yates is willing to drill your
14 specific footage location in the northeast quarter, the 990
15 setback, right?

16 A. I assume, since they -- I haven't seen the
17 proposal, but I assume that's correct.

18 Q. It's on the docket.

19 A. Yeah, it's on the docket, so I assume --

20 Q. So there's no debate between the two companies as
21 to where to put the well physically within the northeast
22 quarter?

23 A. No.

24 Q. Okay. So it comes down to, now, a debate over
25 who operates it?

1 A. Exactly.

2 MR. KELLAHIN: Okay. No further questions, Mr.
3 Examiner.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. To make a commercial well, you testified that you
7 needed 10 feet of sand?

8 A. Yes.

9 Q. Is that in each of the sand intervals, the "B"
10 and the "C"?

11 A. What I have found, this -- You know, this trend
12 goes for many miles to the northeast and to the -- I mean
13 to the northwest and the southeast. In general, wells that
14 have 10 feet or more of one particular sand have more of a
15 chance of making a successful well. So I guess if I found
16 one sand of the two that had 10 feet and the other one had
17 five feet, I would probably have a good chance of making a
18 commercial well.

19 Q. Are you aware of any opposition from OXY to your
20 proposed location?

21 A. They have talked with us, and we've reached an
22 agreement with them, and we'll give -- I think our
23 agreement is that we will agree to support a like location,
24 and I think we're going to trade well data. So we've
25 reached and agreement with them.

1 EXAMINER CATANACH: Okay, I have nothing further.

2 MR. BRUCE: That concludes my presentation, Mr.
3 Examiner.

4 EXAMINER CATANACH: Okay, let's take five here,
5 everybody stretch.

6 (Thereupon, a recess was taken at 3:18 p.m.)

7 (The following proceedings had at 3:28 p.m.)

8 EXAMINER CATANACH: Mr. Kellahin?

9 MR. KELLAHIN: Thank you, Mr. Examiner. Our
10 first witness is Mecca Mauritsen.

11 MECCA MAURITSEN,

12 the witness herein, after having been first duly sworn upon
13 her oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q. For the record, Ms. Mauritsen, would you please
17 state your name and occupation?

18 A. Yes, my name is Mecca Mauritsen, and I'm a
19 landman with Yates Petroleum Corp.

20 Q. On prior occasions have you testified before the
21 Division as an expert in petroleum land management issues?

22 A. Yes, I have.

23 Q. What has been your responsibility and involvement
24 with regards to this particular project?

25 A. Upon receiving the initial farmout request letter

1 from InterCoast, Janet Richardson relayed on that they were
2 going to send an operating agreement and AFE, and they
3 didn't, turned it over to me just to handle the well, and
4 went out when the proposal came in.

5 Q. As a result of that involvement, have you become
6 knowledgeable about the identity of the interest owners in
7 a spacing unit for the east half of Section 20?

8 A. Yes, I have.

9 Q. Have you also become knowledgeable about the
10 percentage of interest those parties have?

11 A. Yes.

12 Q. Have you also become knowledgeable about the
13 Stonewall unit agreements and how the parties participate
14 and share on that unit basis?

15 A. Yes, I have.

16 Q. Have you been responsible on behalf of your
17 company with negotiating with Mr. Quinn concerning the
18 competing proposals for the development and exploration of
19 Section 20?

20 A. Yes, I have.

21 MR. KELLAHIN: We tender Ms. Mauritsen as an
22 expert petroleum landman.

23 EXAMINER CATANACH: She is so qualified.

24 Q. (By Mr. Kellahin) Let's turn to Exhibit 1 and
25 have you identify that basic map for me, and then let me

1 ask you some questions.

2 A. Okay, this is just a plat of the subject area.

3 The red outline is the proposed spacing unit for
4 the well, and the dot there in the northeast quarter, of
5 course, is the well location.

6 The yellow outlines are acreage which Yates has
7 an interest in, and the green outline is the outline of the
8 Stonewall unit operating agreement.

9 Q. Give me a general idea of what the Stonewall
10 operating agreement is supposed to do.

11 A. It pools all these lands for the joint operations
12 of all wells drilled in it.

13 Q. As to all depths?

14 A. That's correct.

15 Q. And who operates it?

16 A. Yates Petroleum.

17 Q. So if there's a spacing unit formed in the east
18 half of Section 20, insofar as the southeast quarter goes,
19 are the interest owners subject to that Stonewall unit
20 agreement?

21 A. Yes, they are.

22 Q. So even though the well's outside the unit, so
23 long as the unit track is part of the spacing unit track,
24 then their commitment to the unit controls what happens?

25 A. Yes.

1 Q. Okay. Let's look and see how you have calculated
2 the interests in the east half of Section 20. If you'll
3 turn with me to Exhibit Number 2, let's identify that.

4 A. It's just -- shows all the interests of all the
5 parties for an east-half spacing unit. The parties that
6 are shaded in the gray are parties that have either sent us
7 support letters as operators or have signed AFEs on our
8 behalf, and those total 41.7 percent. The Yates entities
9 themselves have about 37.5 percent of that.

10 Q. Did you help Mr. Quinn in identifying and
11 recognizing the percentages for the east half of Section 20
12 so that both parties could be working with the right
13 parties and the right percentages?

14 A. Yes, they were identified to them when we sent
15 our proposal for the east half to him.

16 Q. Okay. The Stonewall unit agreement is -- Is that
17 a routine agreement, or is there a certain complexity to
18 it?

19 A. No, it's very complex. It was -- came into
20 effect in November of 1973, and I think there's been over
21 20 wells drilled on it since, and a majority of them have
22 had submodifications done, including the south half of this
23 section, and the interests are very complicated.

24 Q. Approximately how many wells are currently being
25 operated by Yates under that agreement?

1 A. I think about 20.

2 Q. Has Yates set up an accounting and a pay system
3 so that all those interest owners are paid at the
4 appropriate percentage --

5 A. Yes.

6 Q. -- for all production?

7 A. Yes.

8 Q. Have you determined that you are capable and
9 competent, that if the Division awards you operations in
10 the east half of 20, that you can make accurate and timely
11 payments to all the interest owners?

12 A. Yes.

13 Q. Let's talk about the percentages now. Mr. Quinn
14 identified certain small interest owners, and I think you
15 have it on your list --

16 A. Yes.

17 Q. -- that have been -- he sent an AFE to them and
18 they returned it signed?

19 A. Correct.

20 Q. Those are parties that are committed to the
21 Stonewall unit, are they not?

22 A. That's correct. They also signed our AFE when we
23 sent it.

24 Q. All right. Signing the AFE, does that have any
25 significance?

1 A. They are committed to our operating agreement, so
2 they will be committed to our interests.

3 Q. Okay. When we look at the Yates interests, you
4 have consolidated those in the first shaded area?

5 A. That's correct.

6 Q. Yates Petroleum, Yates Drilling, Abo Petroleum,
7 and MYCO Industries?

8 A. That's correct.

9 Q. That percentage totals up to what?

10 A. 37.6 percent.

11 Q. In addition, as we go down the column and look at
12 the other shaded entries, what does that represent?

13 A. That's the owners that are either going to
14 support us as operator or have signed the AFE that we've
15 received, their letters and/or AFEs.

16 Q. Let's discuss the Diamond Head Properties
17 interest.

18 A. Yes, that interest is one of the owners in the
19 northeast quarter that's not committed to the operating
20 agreement. They would not commit in 1973, and I've had
21 some conversations with Mrs. Grover, formerly Mrs. Redfern,
22 and she just decided she'd rather stay neutral at this
23 time. She just wants to have a well drilled.

24 Q. Okay, let's go now to the entry on the bottom of
25 the page of Exhibit 2 for the InterCoast Oil and Gas.

1 A. Yes.

2 Q. By Yates' calculation, what interest do they
3 have?

4 A. 24.1 percent.

5 Q. Okay. When we look at the attachments behind
6 Exhibit 2 --

7 A. Yes.

8 Q. -- what are we seeing when we look through this?

9 A. There are some support letters. There's one from
10 Hayes Properties, Ken Williams, W.A. and E.R. Hudson, Inc.
11 And there are also some AFEs. William H. Martin sent a
12 letter. And then there are some AFEs that have been signed
13 on behalf of the other parties that are shaded on the
14 front.

15 Q. When we look at the interest owners on page 1 of
16 Exhibit 2 --

17 A. Yes.

18 Q. -- how do we identify those parties that are not
19 subject to the Stonewall unit agreement?

20 A. The only two parties that aren't subject are
21 Diamond Head Properties and InterCoast Oil and Gas.

22 Q. Okay. Ms. Mauritsen, summarize for us what
23 Yates's position is and why they seek to be operator of the
24 well to be drilled at this unorthodox location in the east
25 half of 20.

1 A. One of the main reasons that they decided to ask
2 for operations is that they are the largest owner, 37
3 percent, and for the fact that the land is very
4 complicated, we've worked up all the numbers with the help
5 of our title attorney, and there's a payout on the south
6 half of that Section 20 that originated from the drilling
7 of the Stonewall DD Number 1. That is still being tracked
8 as a payout and will have to be taken into account when you
9 drill a well on the east half. And of course our
10 accounting people have all those numbers on hand, and we'll
11 continue to track that if we're operating.

12 Q. Let's talk about the percentage.

13 A. Okay.

14 Q. In the meeting on November 17 with Mr. Quinn --

15 A. November 7th.

16 Q. -- November 7th, with --

17 A. Correct.

18 Q. -- Mr. Quinn, were you present at that meeting?

19 A. Yes, I was.

20 Q. And Mr. Beck was at that meeting?

21 A. Yes.

22 Q. Who else was present?

23 A. Randy Patterson, our land manager.

24 Q. And Mr. Siruta, the geologist for InterCoast, was
25 he also present?

1 A. Yes, and Mr. Quinn.

2 Q. Summarize for us your understanding of that
3 discussion with regards to the percentage interest owners
4 asserted at that point between the two companies.

5 A. Well, we had had a short discussion previously on
6 the phone where they had thought they owned 47.5, and I
7 told them that I really didn't think they had, judging by
8 our records. And we discussed it real quickly, but we more
9 or less decided that wasn't really of issue at that time,
10 that we were really going to talk about locations and all
11 that.

12 And they did inquire who Diamond Head was
13 because, of course, that's the person I showed as having
14 the other half of the interest that they thought they owned
15 at that time, and I told them it was, you know, a company
16 in Midland.

17 Q. Was there a discussion about reorienting the
18 proposed north-half force-pooling case, so they were both
19 standup spacing units?

20 A. Yes, there was.

21 Q. Did you understand Yates to make a commitment or
22 agreement at that meeting to reorient the spacing units?

23 A. We didn't agree at that time. I think we all
24 felt like that was something that was a good option to
25 discuss with management.

1 Q. Did you subsequently confirm for Mr. Quinn that
2 management had approved you telling him that Yates was
3 acceptable to reorienting the spacing units?

4 A. Yes.

5 Q. Did Yates advise Mr. Quinn or representatives of
6 InterCoast at the meeting on November 7th that Yates was
7 agreeable to allowing InterCoast to operate the well in the
8 northeast quarter of 20?

9 A. No, we did not.

10 Q. What was said and what was done?

11 A. It actually was not discussed. They proposed it
12 that way, but we more or less just said we need to run it
13 by management, because we knew, knowing the interest we
14 were going to have, that management was going to want to
15 talk about operations.

16 Q. Okay. What has become Yates' practice with
17 regards to competing requests for operations in examples
18 like this?

19 A. We went through several cases like that, several
20 hearings up here, and we have now most of the time decided
21 that the largest working interest owner probably should be
22 the operator.

23 Q. You're referring to the Yates-Nearburg wars at
24 the Commission?

25 A. Yes.

1 Q. And how come we don't have those here anymore?

2 A. Because we have mutually agreed with Nearburg to
3 just handle them that whoever has the largest ownership,
4 that we will operate, and the other one will agree to that.

5 Q. Do you believe that's an appropriate solution
6 here?

7 A. Yes, I do.

8 Q. Why is it acceptable to Yates to have the largest
9 interest owner operate the well, even if Yates does not
10 have consolidated the largest percentage for that spacing
11 unit?

12 A. We still represent the largest total ownership in
13 the well. The Yates Companies themselves have 37 percent.
14 With Yates operating, we can take care of our own
15 interests, along with the interests in the Stonewall unit
16 agreement of all the parties that have been in that
17 agreement since 1973.

18 Q. Well, let's assume the reverse. Let's assume you
19 had only the 24 percent and InterCoast had consolidated the
20 42 percent that you have now controlled. It would be your
21 position that InterCoast could operate?

22 A. Yes, it would be.

23 Q. Why does that make sense? Why should the largest
24 interest -- the group that has elected the largest
25 percentage to operate, why should they do that?

1 A. To me, they have the largest vested interest in
2 the well being drilled.

3 Q. And the greatest financial risk?

4 A. That's correct.

5 Q. That was the one issue that the companies could
6 not resolve; am I correct in understanding that, Ms.
7 Mauritsen?

8 A. The operations?

9 Q. Yes, ma'am.

10 A. That's correct.

11 Q. And as a result, you filed a competing pooling
12 application?

13 A. Yes, we did.

14 Q. What was the purpose of that?

15 A. The Yates management decided they wanted to
16 operate. I had asked Mr. Quinn on the phone -- You know,
17 we actually said we think the largest ownership ought to
18 operate.

19 And he said, Well, no, we really want to operate.
20 You know, and he -- We generated the prospect; we want to
21 operate.

22 And I said, Okay, I will discuss that with
23 management, because they had not indicated to me at that
24 time whether we were really going to ask for operations or
25 not.

1 But within a week or so, in discussing again with
2 them, they decided, based on the ownership that I had
3 presented them, that they should operate. And since they
4 had already told us that they would not accept us as
5 operator, we went ahead and filed the case.

6 Q. In order to timely bring this matter to the
7 Division for decision, then, you decided to go ahead and
8 file the pooling case?

9 A. That's correct.

10 Q. And let the Division decide?

11 A. That's correct. We were aware of the January
12 17th date, so we knew there was a time frame we needed to
13 get it done by.

14 Q. All right. And do I understand you communicated
15 to InterCoast that Yates is willing and able to commence
16 the well in time to assure them of their farmout situation?

17 A. Yes, we have.

18 Q. Now, there were some contingencies described to
19 one of the parties with regards to the timing, with regards
20 to events beyond your control?

21 A. That's correct.

22 Q. And describe to me what those might be.

23 A. In talking to Mrs. Grover at Diamond Head, she
24 had advised me she wanted to remain neutral, she felt
25 caught between the two of us, but she wanted our assurance

1 that we would timely start the well and not lose the
2 farmout for InterCoast.

3 Q. And you gave her that assurance?

4 A. Yes, I did, in writing. I sent an operating
5 agreement page with that date in it, and I put it in
6 writing also that we definitely would start the well in
7 time, if elected operator.

8 Q. Did you tell her there were any conditions beyond
9 your control that might simply preclude you from doing it?

10 A. Yeah, the only two conditions that I told her
11 that might preclude that is that -- the fact that we didn't
12 get an order in time, which I'm doubtful will not happen,
13 but if we were elected operator there is a chance that
14 InterCoast could file a *de novo* case, and that would delay
15 the starting of that well.

16 Q. Apart from those kind of proceedings, then, you
17 would have a rig available and have the ability to get on
18 the property and certainly save their farmout?

19 A. Yes, we would.

20 Q. All right. Let's turn to the matter of Exhibit
21 3. You've compiled a number of separate documents and
22 labeled it as a single exhibit?

23 A. Right.

24 Q. Describe for me what we're about to look at.

25 A. Well, this is just kind of a chronological, what

1 I thought were the more important correspondence or phone
2 conversations that we had with Mr. Quinn concerning these
3 operations in this section.

4 Q. And should the Examiner care to do so, then, he
5 could follow the chronology here that you've set forth?

6 A. That's true. I don't think it's necessary to go
7 through every one of these.

8 Q. It's your work product, and you've compiled it?

9 A. That's correct.

10 Q. It's done chronologically?

11 A. That's correct.

12 Q. And when we see a date and then see a number in
13 the next column, what does the number represent?

14 A. The number represents the number of the document
15 that is behind it. So if he wants to look at the document,
16 it is there.

17 Q. All right. And if there is an entry by date and
18 then a notation without a number, it normally refers to a
19 phone call, I guess?

20 A. That's correct.

21 Q. All right. So there would be no number?

22 A. That's correct.

23 Q. Do you have a recommendation to the Examiner with
24 regards to overhead rates if he should award operations to
25 Yates?

1 A. Yes, we would recommend that the drilling well
2 rate be \$5400 and the producing well rate be \$540. And the
3 reason that we're proposing that is that Mrs. Grover has
4 asked, if we're elected operator, she wants to execute a
5 new operating agreement.

6 We asked her to ratify the Stonewall. She
7 doesn't want to do that. And in our new agreement that's
8 what we propose, and we will use those rates for everyone.

9 Q. There's some complexity with the escalation of
10 operating charges under those old agreements, are there
11 not?

12 A. Right, it's a 1973 agreement. If you escalate it
13 the numbers are fairly high, and we would prefer not to use
14 those on a new well.

15 Q. All right. I was looking for the reference as to
16 what InterCoast was proposing for the overhead rates, and I
17 simply have lost the reference.

18 A. Exhibit 7 has a copy of the COPAS from their
19 operating agreement in it. Or Number 7, Exhibit 1 [sic].

20 Q. All right. Their rates are \$5819 and \$564?

21 A. That's correct.

22 Q. As part of the compulsory pooling Application
23 that you have filed, did you cause all the interest owners
24 in the west half to be provided notice of the hearing?

25 A. No, we only provided notice to InterCoast and

1 Diamond Head, because they're the only parties that aren't
2 subject to the operating agreement.

3 Q. So they would be the only outstanding interests
4 entitled to that notification?

5 A. That's correct, that's correct.

6 Q. And did you do the same thing with regards to
7 your AFE and well proposal then?

8 A. We sent them to every owner.

9 Q. So every owner, even if they're committed to the
10 Stonewall unit or not, got a copy of the well proposal and
11 Yates' AFE?

12 A. That's correct.

13 Q. Have you received any objection to your AFE or
14 well proposal from anyone other than InterCoast?

15 A. No.

16 MR. KELLAHIN: I believe that's all the questions
17 I have, Mr. Examiner. That concludes my presentation of
18 this witness.

19 We move the introduction of her Exhibits 1, 2 and
20 3.

21 Q. (By Mr. Kellahin) Did you have a 4?

22 A. We have Number 4, which is the --

23 Q. -- the certificate of notification?

24 A. -- of notification, yes.

25 MR. KELLAHIN: In addition, Mr. Examiner, the

1 notification from my office is the Exhibit 4.

2 EXAMINER CATANACH: Exhibits 1 through 4 will be
3 admitted as evidence.

4 Mr. Bruce?

5 CROSS-EXAMINATION

6 BY MR. BRUCE:

7 Q. Ms. Mauritsen, I think you have it down here on
8 your Exhibit 3 that at that November 7th meeting, really
9 the geologists were at odds over where the best well
10 location would be for a north-half unit?

11 A. For a north-half unit, they definitely were at
12 odds, yes.

13 Q. Okay. Do you happen to know when was the -- what
14 year the last Morrow well was drilled under the Stonewall
15 operating agreement?

16 A. No, I would not. I don't know if the geology
17 witness will know or not, but I do not.

18 Q. In looking at, once again, your Exhibit 3, Tab 8
19 is your November 22nd --

20 A. Right.

21 Q. -- 1996, letter --

22 A. Right.

23 Q. -- to the -- to InterCoast, and that's when you
24 made the proposal to all the interest owners for an east-
25 half well?

1 A. Right, we sent the letter to InterCoast that
2 date, and as you'll see, I think Number 9 is also our
3 proposal letter to all the owners.

4 Q. Okay. Excuse me, Tab 9.

5 A. Right.

6 Q. Tab 9.

7 A. Right.

8 Q. And that was the first letter from Yates
9 proposing the east-half well?

10 A. That's correct.

11 Q. Okay. But by then, I think pretty much the
12 interest owners had known for some -- quite -- a couple of
13 months, of a proposed well in the northeast quarter?

14 A. Oh, definitely, yes.

15 Q. Now, I think you said that in your opinion, the
16 largest working interest owner should be the operator of
17 the well?

18 A. That is definitely something that we consider,
19 yes.

20 Q. Now, Yates Petroleum Corporation is a
21 corporation, right?

22 A. Yes.

23 Q. As are Yates Drilling Company and Abo Petroleum
24 Corporation and MYCO Industries, Incorporated?

25 A. Yes.

1 Q. So those are all separate legal entities?

2 A. Yes.

3 Q. Do they have separate shareholder ownership?

4 A. You know, I'm not quite aware of what the
5 ownership is. I do know that those three companies have an
6 interest in Yates Petroleum, or the three families that
7 make those up also own Yates Petroleum. But I cannot tell
8 you any idea how it's split out.

9 Q. Okay. But in this well itself, Yates Petroleum
10 Corporation has a smaller interest than Diamond Head or
11 InterCoast?

12 A. Yes, Yates Petroleum themselves do, yes.

13 MR. BRUCE: That's all I have, Mr. Examiner.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Okay. Ms. Mauritsen, on your Exhibit Number 2 --

17 A. Yes, sir.

18 Q. -- the parties that are shaded --

19 A. Yes.

20 Q. -- are, again, those who are subject to the
21 operating agreement?

22 A. Those --

23 Q. Are all the parties subject to the operating --

24 A. No, the only two that are not subject is
25 InterCoast and Diamond Head properties. All the remaining

1 30 people are subject to the operating agreement.

2 Q. Okay. The parties shaded in gray?

3 A. Those are the ones that have either signed an AFE
4 or given us support letters saying they will support us in
5 the drilling of the well in the east half.

6 Q. Okay, the other interest owners, do you feel like
7 you have control of their interest by virtue of the
8 operating agreement?

9 A. Yes. I mean, we could nonconsent them if we want
10 to. We've indicated to them that due to this hearing being
11 heard, that we will not consent them until after it's heard
12 and a decision is made, we'll give them an election period
13 at that time. But we could nonconsent them if we desired
14 to do so.

15 Q. So one of these interest owners couldn't commit
16 their interest to Intercoast; is that what you're saying?

17 A. I don't think they could, unless they were
18 nominated as operator.

19 Q. You mentioned something about the well in the
20 southwest quarter of Section 20 was -- had something to do
21 with the east half. Was that a --

22 A. When the DD Number 1 was originally drilled it
23 was a south-half spacing unit. It has since -- That was,
24 you know, it has since been recompleted to the Wolfcamp.
25 It's no longer in the Morrow. And at this time it's shut

1 in, in the Wolfcamp formation.

2 Q. What effect does that have on pooling of the east
3 half?

4 A. Well, the original well, when it was drilled, had
5 some farmouts to it. The farmouts read that payout is
6 reached on the spacing unit, not the well itself. So if
7 those lands are committed anywhere else, you have to still
8 track that payout, and any new wells drilled concerning
9 those lands will contribute to the payout of the original
10 well.

11 Q. Okay. As I understand it from a previous case,
12 that well will probably be plugged and abandoned; is that
13 right?

14 A. There's that poss- --

15 Q. Or at least recompleted?

16 A. There is that possibility, yes.

17 EXAMINER CATANACH: I guess that's all I have of
18 the witness.

19 Anything else?

20 MR. KELLAHIN: Follow-up question.

21 FURTHER EXAMINATION

22 BY MR. KELLAHIN:

23 Q. When we look at Exhibit Number 2 --

24 A. Yes.

25 Q. -- Ms. Mauritsen, the party that has consolidated

1 the largest interest is, no question, Yates; is that not
2 true?

3 A. That's correct.

4 Q. And when we look at the Yates entities, the
5 family of Yates Petroleum, Yates Drilling, Abo Petroleum,
6 MYCO Industries --

7 A. Yes.

8 Q. -- all those entities together have elected Yates
9 Petroleum to drill the well in the east half?

10 A. Yes, they have.

11 Q. They want Yates to operate --

12 A. Yes.

13 Q. -- no question about it?

14 Each of those companies, then, has been contacted
15 individually, or how is that decision made? Do you know?

16 A. The Yates Companies?

17 Q. Yeah.

18 A. It's just an automatic decision that if Yates Pet
19 is going to drill a well and the other companies are in it,
20 they will participate with Yates Pet as operator.

21 Q. All right. So there is no argument that MYCO is
22 going to stand on the sidelines and not have its interest
23 committed to Yates?

24 A. No, that's just an automatic decision.

25 Q. Okay. Mr. Bruce is attempting to indicate that

1 Yates standing alone with 19 percent, then, has a lesser
2 interest than InterCoast with regards to the investment
3 made in the east half of Section 20?

4 A. That's correct.

5 Q. Are you intending to characterize your testimony
6 in that fashion, where Yates Petroleum with 19 percent is
7 going to defer to InterCoast because they now have 24
8 percent?

9 A. No, we're not.

10 Q. Is that what you mean to say?

11 A. No, that's not what I meant, no. I mean, he is
12 indicating that they are a lesser amount by themselves, but
13 they all own an interest in each other's companies, and
14 they all -- always participate as a group.

15 Q. And when that group was in disputes with
16 Nearburg, it was that group's collective interests, then,
17 that was decided upon in terms of electing the operator in
18 those competitions with Nearburg?

19 A. Yes.

20 MR. KELLAHIN: No further questions.

21 MR. CARROLL: I have a couple questions.

22 THE WITNESS: Sure.

23 EXAMINATION

24 BY MR. CARROLL:

25 Q. I believe you cited the underlying accounting --

1 You cited the underlying accounting regarding the Stonewall
2 unit operating agreement as one reason Yates should be the
3 operator?

4 A. Well, the fact that there are these old payouts
5 that are still being tracked at this moment, and half of
6 these lands committed to this well will be involved in that
7 payout now, you know, without our accounting people turning
8 everything over to them, there's no way they could track
9 any of that.

10 Q. Would Yates refuse to turn over that accounting
11 information if InterCoast was named operator?

12 A. No, we would not.

13 Q. And why would it be InterCoast's problem
14 regarding the payment for the accounting under the
15 Stonewall unit operating agreement?

16 A. In just the disbursement of the royalties, or the
17 proceeds?

18 Q. Yeah, regarding wells on properties located
19 outside the east half.

20 A. I don't think there's any problem with them
21 disbursing if they're elected operator.

22 MR. CARROLL: That's all I have. I'm still
23 confused.

24 THE WITNESS: It's confusing.

25 EXAMINER CATANACH: The witness may be excused.

1 MR. KELLAHIN: Mr. Examiner, I'd like to call at
2 this time Michael Hayes.

3 (Off the record)

4 MICHAEL HAYES,
5 the witness herein, after having been first duly sworn upon
6 his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Mr. Hayes, for the record, sir, would you please
10 state your name and occupation?

11 A. Michael Hayes, geologist.

12 Q. On prior occasions have you testified before the
13 Division and qualified as an expert in petroleum geology?

14 A. Yes, I have.

15 Q. Give me a quick summary of your background
16 education and work experience.

17 A. I have a bachelor of science degree from St.
18 Lawrence University and a master of science degree from the
19 University of North Dakota.

20 I worked for the Exxon Company, USA, for
21 approximately six years in Andrews and Midland, Texas, and
22 then worked for Chi Energy in Midland, Texas, for
23 approximately six years, and my area of responsibility is
24 primarily southeastern New Mexico, and then I have been
25 working for Yates for approximately seven months.

1 Q. Of your years of experience as a professional
2 geologist, Mr. Hayes, how much of that time has been spent
3 in southeastern New Mexico, Permian Basin area?

4 A. Southeastern New Mexico and Permian Basin,
5 approximately nine of those years.

6 Q. Have you and Mr. Ray Beck conducted a geologic
7 study of the geologic facts surrounding drilling wells in
8 Section 20?

9 A. Yes, we have.

10 Q. And in cooperation with Mr. Beck, have the two of
11 you prepared certain exhibits for presentation today?

12 A. Yes, we have.

13 MR. KELLAHIN: We tender Mr. Hayes as an expert
14 petroleum geologist.

15 EXAMINER CATANACH: He is so qualified.

16 Q. (By Mr. Kellahin) Let's talk in a general sense
17 about this area. When we look at Section 20, what is the
18 primary target that you as a geologist see for a well
19 drilled in Section 20?

20 A. Primary target is what I'd refer to as the upper
21 Morrow clastic interval.

22 Q. When Mr. Siruta testified, he was describing for
23 us on his cross-section a "B" and a "C" sand, I think it
24 was, if I remember his nomenclature.

25 A. That's what I understood, yes.

1 Q. Yeah, he had isopached the "B" and the "C"; you
2 saw those displays?

3 A. Yes, I did.

4 Q. When we look at the area that you and Mr. Beck
5 studied, how do we identify it in your nomenclature?

6 A. They would be sands within that upper Morrow
7 clastic interval.

8 Q. All right. Let's look at the cross-section
9 you've presented -- it's Exhibit 5 --

10 A. Exhibit 5.

11 Q. -- and the area you've identified is that upper
12 Morrow clastics?

13 A. Yes.

14 Q. That's the same interval that Mr. Siruta was
15 talking about, but he subdivided it into what, a "B" and a
16 "C" zone?

17 A. Well, I'm not entirely certain of that. I don't
18 know precisely, but it seemed like it was essentially the
19 same interval, gross interval, that he had identified and
20 broken out two distinct sands within that larger interval
21 that he was mapping upon, as best I can recall.

22 Q. All right. Let's talk about your interpretation.
23 When we look at Section 20 and you look at your geologic
24 information, give us a general sense of the deposition and
25 the environment which exists for any more production in

1 this immediate vicinity.

2 A. It's essentially a combination of marine
3 shoreline sand deposition and fluvial sand deposition, in a
4 fairly complex environment. It would include fluvial
5 channels, offshore bars, delta complex, that type of
6 environment.

7 Q. For regulatory convenience, we've packaged the
8 Morrow as a single pool in this area --

9 A. Yes.

10 Q. -- the Burton Flat-Morrow?

11 A. That's my understanding, yes.

12 Q. And in fact, when you look at it, it is made up
13 of multiple reservoirs?

14 A. That's correct.

15 Q. What did you do as a geologist in determining the
16 kinds of parameters you want to select to give you the best
17 possibility of drilling your best locations in a section?
18 What are you going to do?

19 A. In this particular area where the upper Morrow
20 clastics are the primary target, one of the techniques that
21 we use is to isopach that entire clastic interval to try to
22 get an idea. There's generally a correspondence or a
23 combination in these thicker units of the upper Morrow
24 clastic interval for more sand, and by trying to encounter
25 more sand, we try to increase our chance of success.

1 Q. What's accomplished by packaging it in a gross
2 sense, looking at this upper middle Morrow clastic?

3 A. It's an attempt to try to get a feel for the
4 larger-scale features that are present in the environment.

5 Q. Is it practical, or even possible, to create
6 isopachs of these individual Morrow reservoirs in this area
7 and have a map that means anything?

8 A. It's possible. It's very difficult.

9 Q. So the practice has been to simply consolidate
10 them in a gross sense and see if there's a general trend
11 within a section as to where to put the well?

12 A. That's a technique that we use, yes.

13 Q. And have you done that here?

14 A. Yes.

15 Q. Let me show you what's marked as Exhibit 6.

16 A. It would be the upper Morrow isopach.

17 Q. The upper Morrow clastic is the primary target,
18 in your opinion, in the section?

19 A. Yes, it is.

20 Q. Okay, describe for us what you've concluded with
21 Exhibit 6.

22 A. The upper Morrow clastic isopach is an isopach
23 map of the entire upper Morrow clastic interval. It
24 includes both sands and shale intervals, the total package.
25 This map, or Exhibit 6, shows with double circles

1 Morrow penetrations, and then near the wells it has the
2 thickness of the upper Morrow clastic interval, isopach
3 thickness. The red-shaded areas on these larger circles
4 show the wells that are productive from this upper Morrow
5 clastic interval. And the contour interval here is 10
6 feet.

7 Q. All right. In a gross sense, then, using this
8 isopach for this particular interval, you're beginning to
9 look at where you might best locate a well in the section?

10 A. That's correct.

11 Q. And if we develop the section with the maximum
12 density of two wells per section, where are the quarter
13 sections of your preference?

14 A. If there were just two wells, my two preferred
15 quarter sections?

16 Q. Yeah.

17 A. My primary preference would be the northwest
18 quarter.

19 Q. And what's your next location?

20 A. I believe it would be the -- At this time, based
21 on this, I would believe in the northeast quarter.

22 Q. Can you further study this by applying any types
23 of cutoffs or other parameters to the gross map to get you
24 either a clean net sand of some kind?

25 A. Yes, and in fact, that's what the next exhibit

1 is, Exhibit Number 7.

2 Q. All right, what was the cutoff used to get your
3 clean net sand?

4 A. I used a 50 API unit or less as the clean sand
5 cutoff.

6 Q. What's the basis for using 50?

7 A. It's a fairly well accepted convention that
8 attempts to try to clarify what's clean quality sand versus
9 poorer quality sands.

10 Q. That's done on an individual basis for the wells
11 that provide data points on the display?

12 A. Yes.

13 Q. And so the value we see next to each well dot
14 represents that method?

15 A. That's correct.

16 Q. And then you contour?

17 A. Yes.

18 Q. All right. Based upon that analysis, what do you
19 conclude about the ranking, if you will, of wells in each
20 of the four 160-acre tracts in 20?

21 A. From this map, it seems fairly evident that the
22 location, by a quarter-section basis, would be, the
23 northwest quarter looks the best, the northeast quarter
24 would be second, then the southwest quarter, which has
25 essentially been tested, and then the southeast quarter,

1 ranked from better to poorer.

2 Q. From your analysis, do you conclude a well in the
3 northeast quarter with an east-half spacing unit is a
4 viable prospect?

5 A. Yes.

6 Q. And you would recommend to management that they
7 participate and, in fact, drill that well?

8 A. Yes.

9 Q. The unorthodox location, do you and Mr. Siruta
10 have any disagreement about the location of that well?

11 A. No, we don't.

12 Q. Mr. Siruta has suggested a 990 location out of
13 the corner?

14 A. That is what we're suggesting too, yes.

15 Q. So you're in agreement on that issue?

16 A. Yes, we are.

17 Q. Okay. Let's take a quick look at the lower
18 Morrow. I think it's identified on your cross-section --

19 A. Yes.

20 Q. -- and if you'll give me a second, I'll go ahead
21 and number these exhibits.

22 A. That would be Exhibit Number 8.

23 Q. 8 and 9, okay. Let's look first at the gross
24 lower map first, Exhibit -- What did I say? 8?

25 A. Yes.

1 Q. All right. What's your conclusion here?

2 A. The conclusion is, again, that the preferred
3 quarter-section location would be in the northwest quarter,
4 with a secondary preference in the northeast quarter.

5 Q. In this immediate vicinity, this lower Morrow
6 clastic is not yet productive; is that true?

7 A. The map identifies wells that are productive from
8 the lower Morrow clastic interval, and as can be seen on
9 here, there are only four wells that actually produce from
10 the lower Morrow in this area.

11 Q. So they do produce; there's just fewer of them?

12 A. Yes.

13 Q. Would you recommend that the well be drilled deep
14 enough that the interest owners in the east half of 20 have
15 an opportunity to access that portion of the Morrow?

16 A. Oh, yeah, if they're drilling a well primarily to
17 the middle Morrow or the upper Morrow, it would be worth
18 taking the well to the lower Morrow, yes.

19 Q. And when you look at Exhibit 9, what so you
20 conclude about accessing the reservoir at the proposed
21 unorthodox location in the northeast quarter?

22 A. That seems to be as good a reasonable spot as we
23 can perhaps get at this time.

24 Q. So you and Mr. Siruta are still in agreement as
25 to how to do this in terms of its location?

1 A. Yes, it is primarily based on the middle Morrow.

2 Q. Yeah.

3 A. That's our primary target.

4 MR. KELLAHIN: That concludes my examination of
5 Mr. Hayes, Mr. Examiner.

6 We move the introduction of Mr. Hayes' Exhibits 5
7 through 9.

8 EXAMINER CATANACH: Exhibits 5 through 9 will be
9 admitted as evidence.

10 Any questions, Mr. Bruce?

11 MR. BRUCE: Since they agree on the well
12 location, no.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Hayes, have you also spoken with OXY, the
16 offset operator?

17 A. This one, I'm not as familiar with what their
18 preference is on this location.

19 MR. KELLAHIN: Mr. Examiner, if you would allow
20 me, I will represent to you that OXY has made the same
21 arrangement. I've done it for OXY. Regardless of who is
22 operator, both Yates and InterCoast have agreed to provide
23 OXY with data and to allow them to have a similar
24 unorthodox location with regards to their operation in -- I
25 believe it's either 16 or 17. OXY controls those sections

1 up there. That satisfied OXY, and so there is no objection
2 to the location.

3 EXAMINER CATANACH: I have no further questions
4 of this witness.

5 (Off the record)

6 MR. KELLAHIN: Mr. Examiner, we'd like to call at
7 this time Mr. Bob Fant.

8 ROBERT S. FANT,
9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Mr. Fant, for the record, sir, would you please
14 state your name and occupation?

15 A. Robert Fant. I am a petroleum engineer.

16 Q. Mr. Fant, on prior occasions have you testified
17 as a petroleum engineer on behalf of Yates Petroleum
18 Corporation before the Division?

19 A. Yes, sir, I have.

20 Q. Pursuant to your employment, have you made a
21 study of the two competing AFEs, the one by InterCoast and
22 the one by Yates, with regards to this case?

23 A. Yes, sir, I have.

24 Q. And as a result of that study, have you also
25 prepared a comparison for the Examiner so that he can

1 compare these two items?

2 A. Yes, sir.

3 MR. KELLAHIN: We tender Mr. Fant as an expert
4 engineer.

5 EXAMINER CATANACH: He is so qualified.

6 Q. (By Mr. Kellahin) Let's take just a moment for
7 the record and identify the first exhibit. Exhibit 10 is
8 what, sir?

9 A. Exhibit 10 is a copy of the AFE for the Stonewall
10 AQK [sic] State Com Number 1. That's Yates Petroleum's
11 proposed well.

12 The total for -- at the bottom right, of the
13 costs, on the line called "total costs", is \$861,500.
14 That's for drilling, completing and equipping and basically
15 getting the well to production, to productive capabilities
16 and actually producing down the line. So that's total cost
17 for what Yates sees this well as costing.

18 Q. All right. And you had a copy of the InterCoast
19 AFE to analyze?

20 A. Yes, sir, I did.

21 Q. And their total equivalent number is \$755,725, is
22 it not?

23 A. That's correct.

24 Q. All right. Let's look, then, at the comparison
25 that you've prepared, which is Exhibit 11.

1 A. Yes, Exhibit Number 11 is entitled "AFE
2 Comparison - YPC and InterCoast".

3 Q. Let's talk about how you went through the
4 InterCoast AFE and tabulated the data and then put it in
5 equivalent entries using the Yates Petroleum format for
6 this exhibit.

7 A. Yes. No two companies write AFEs in an identical
8 manner. They'll use differing line items that they like to
9 pull out and identify.

10 For my own sake, I used the different line items
11 that come straight off the Yates Petroleum AFE form and
12 then, to the best of my ability, I took the numbers that
13 were present on the InterCoast AFE and attempted to place
14 them in the proper slot to compare -- so that we can go
15 line by line and compare the two of them on the table
16 itself.

17 As I said, they have some -- Their AFE has items
18 that may not show up on ours; ours has some that may not
19 use the same exact wording on theirs. So there's a little
20 bit of interpretation.

21 But there are many items on here that are the
22 same, such as both of us have a drilling footage, drilling
23 daywork, basically for the contractors, casing costs and
24 things like that. Those are line items that are comparable
25 from one AFE to the next, because almost all AFEs have

1 those particular line items, and they're usually very
2 unique items so that you can pull them out and actually
3 compare them.

4 Q. In your opinion, have you done the comparisons
5 with a degree of accuracy and reliability that the Division
6 Examiner can rely upon this comparison?

7 A. I believe so.

8 Q. Let me ask you this: When you look at the
9 InterCoast AFE, the total cost --

10 A. Uh-huh.

11 Q. -- in your opinion, is that a fair and reasonable
12 cost for drilling this well?

13 A. I don't believe -- I believe it's going to be a
14 little light. I mean, as in a little bit low. They have
15 made certain decisions to spend less money in certain
16 areas. We feel that it's better for the well to spend more
17 money in certain areas.

18 Q. Let me ask you this, then: Would Yates be
19 agreeable and acceptable to having this well drilled using
20 the InterCoast AFE?

21 A. If the -- If InterCoast were designated the
22 operator, we would sign the AFE, yes. We believe that it
23 is better to go with the cost figures in ours, because it
24 allows for certain expenditures in other areas.

25 Q. Let's talk about a specific for-instance. You

1 have got bold shading in the comparison line --

2 A. Yes.

3 Q. -- of a number of entries that show a difference
4 of significance?

5 A. Yes.

6 Q. And you then in the far right column identified
7 them as major items?

8 A. Yes, I just identified them as major items. The
9 third column, YPC minus InterCoast, is just the difference
10 between the two AFEs, and I pulled out what I considered to
11 be line items that I know that we're dealing in the same
12 kind of numbers, that it's a line item on their AFE, and
13 it's a line item on our AFE, the first one being drilling
14 footage, and there's a difference of \$37,350.

15 Q. Well, what's the difference? How does that
16 occur, then?

17 A. Well, basically they've budgeted \$17 per foot on
18 drilling footage, we have budgeted \$18.75 per foot. That's
19 interesting, but really, the costs of a rig in terms of day
20 work -- I mean footage rates for drilling to these depths,
21 is really controlled by the market. We can put numbers
22 down, but the availability of rigs is what controls that
23 market, and basically both companies are going to come out
24 with the same numbers. We can put different numbers down,
25 but they're going to probably come out basically the same.

1 We're going to be talking basically to the same contractors
2 for drilling the well.

3 Q. In your opinion, can the Examiner make a decision
4 on who operates based upon the difference in the footage
5 here?

6 A. Oh, certainly not, I don't believe that would be
7 correct.

8 Q. There is a small difference in cementing. Why
9 have you chosen that as a major item where it's only a
10 \$10,000 difference?

11 A. Well, I chose that as a major item because when
12 you combine the cementing of the surface casing with, in
13 the next block of numbers, the cementing of the production
14 casing, which is a \$21,000 difference, when you look at
15 cementing, there's a \$31,600 difference between the two
16 AFEs.

17 I have spoken with Halliburton, and basically
18 their indications in terms of -- more importantly, when you
19 look at the cementing of the production casing in the
20 second block of numbers, there's \$15,500 allocated for
21 cementing of an 11,250-foot string of casing in InterCoast.

22 Q. Well, do you have a concern that the budgeted
23 item for InterCoast is not sufficient to provide adequate
24 cement in this well?

25 A. I'm concerned that it will not provide enough

1 cement to completely protect the casing for the life of the
2 well, yes.

3 Q. So it's underbudgeted, at least as to that item,
4 in your opinion?

5 A. Yes, and there wasn't enough information on the
6 cementing of the surface casing to determine how that would
7 actually go.

8 Q. All right. Let's go back up and look at another
9 for-instance. There is a significant difference between
10 the logging estimates for Yates of \$31,000 versus \$9500 for
11 InterCoast. What is the difference there?

12 A. We're dealing in basically the open-hole logs.
13 This is an 11,000 -- over-11,000-foot well. Yates
14 Petroleum has \$31,500 budgeted, InterCoast has \$9500.
15 That's a \$22,000 difference. And I believe we -- ours is a
16 little bit high there.

17 I have spoken with the geologist. When the AFE
18 was written, it was written so as to include the running of
19 a sonic log. And I've spoken with Mr. Beck. He feels with
20 the control we have in the area, a sonic log may not be
21 necessary. So it would -- Our number is a little bit high.

22 But \$9500 is not going to get you logs over the
23 entire interval up to the top of the Delaware, and we need
24 to log up through the Delaware, because up through the
25 Delaware is still potential pay. There's approximately six

1 or seven potential pay zones in this well.

2 Q. In your opinion, is InterCoast underbudgeted on
3 log items for the entry?

4 A. I believe so. They'll be able to get some logs,
5 but I don't believe they'll be able to get logs across the
6 full interval for that amount. And I believe they'll want
7 logs of the full interval.

8 Q. You noted an item of difference here where the
9 difference goes the other direction. There's a stimulation
10 upon completion.

11 A. Yes, InterCoast has \$70,000 budgeted for it, we
12 have \$50,000 budgeted for it. This again is one of those
13 things that can kind of go either way. You can budget for
14 it, but the stimulation you put on the well is just
15 dependent on what kind of reservoirs you encounter and what
16 kind of convection you get between the wellbore and the
17 reservoir.

18 For instance, we recently completed a well in the
19 Morrow that required nothing more than perforations, so
20 there was zero stimulation on that well. And that
21 potential exists here. I'm not saying it will happen, but
22 that potentially -- So those numbers, whatever they are,
23 will be determined by the well when the time comes, and for
24 either company they're going to be about the same.

25 Q. There's a large difference in the casing AFE when

1 we look at the tangibles --

2 A. Yes, this is --

3 Q. -- particularly with regards to the 5-1/2-inch?

4 A. Yes, sir, the 5-1/2-inch casing is my greatest
5 concern in difference. I did not note it on this AFE, but
6 when you look at InterCoast's AFE, they're wanting to run
7 4-1/2-inch casing.

8 From an operational standpoint, if we run into --
9 if we encounter Delaware/Bone Spring -- if we encounter oil
10 production, the 4-1/2-inch casing will not provide the
11 capacity needed to pump those wells in an efficient manner.
12 And we feel that it's very important to put 5-1/2-inch
13 casing in wells of this type.

14 Q. That would allow you to --

15 A. That's what creates that huge difference between
16 those two.

17 Q. All right. So if you put 5-1/2-inch casing, what
18 does that afford you the opportunity to do, that you can't
19 accomplish with the 4-1/2-inch?

20 A. Well, there's things. With regards to this
21 specific well that we're talking about here, you can run --
22 if you encounter a highly productive well you can install
23 2-7/8-inch tubing and produce at more efficient, higher
24 rates, with less friction there, basically.

25 With the 4 1/2 you can only run 2-3/8-inch

1 tubing; you cannot go larger than the 2 3/8 tubing. So
2 you're basically -- If you need the 2 7/8 tubing with the
3 4-1/2-inch casing, you can't put it in there.

4 It will physically fit, but from an operational
5 standpoint, you don't want to put something in there that
6 has that tight of tolerance, because you'll run a great
7 risk of sticking the tubing in there and not getting it
8 out.

9 Q. The last point of major difference, they have
10 \$25,000 budgeted for -- pipeline?

11 A. Yes, I think it was actually -- I may have
12 misspoken.

13 It's lined pipe, under the "pipeline" section of
14 their AFE, and -- but \$25,000 -- We believe that the
15 pipeline company, should we hit a commercial well, will
16 bring the line to us. So that's why we did not budget for
17 that.

18 But the reason I pulled those major items out is,
19 when you add up those -- take those major items out, we're
20 about \$23,000 difference in our AFEs.

21 Q. All right.

22 A. And that's why I wanted to pull those items out
23 and highlight them.

24 Q. Based upon your comparison, do you have a
25 recommendation to the Examiner that he can decide this case

1 based upon the differences in AFE?

2 A. Oh, I don't believe it can be specifically
3 decided on the differences between the AFE. We do, as a
4 company, believe it's important to run the larger casing in
5 this well.

6 Q. So you have a recommendation that the Division
7 Examiner adopt the Yates AFE?

8 A. That would be my recommendation, yes, sir.

9 MR. KELLAHIN: No further questions, Mr.
10 Examiner.

11 We move the introduction of Mr. Fant's Exhibits
12 10 and 11.

13 EXAMINER CATANACH: Exhibits 10 and 11 will be
14 admitted as evidence.

15 Mr. Bruce?

16 MR. BRUCE: Where did you get that tie, Mr. Fant?

17 THE WITNESS: My wife.

18 MR. BRUCE: Don't have her call mine.

19 I have no questions of Mr. Fant.

20 EXAMINER CATANACH: I have no questions of Mr.
21 Fant.

22 MR. CARROLL: I have one. Would you stop by and
23 show Mr. Stogner that tie?

24 THE WITNESS: Certainly, if he's still here.

25 EXAMINER CATANACH: Mr. Kellahin?

1 MR. KELLAHIN: We're done, Mr. Examiner.

2 If you'll let me make a suggestion, I'd like to
3 have a week or so, prepare you a draft order and submit it
4 and let you decide the case, and we'll all go home and you
5 can see your Christmas play.

6 EXAMINER CATANACH: Sounds good.

7 MR. KELLAHIN: So we would waive closing
8 argument.

9 EXAMINER CATANACH: Mr. Bruce, do you want to
10 submit a rough order on this -- In a week?

11 MR. KELLAHIN: I don't know.

12 EXAMINER CATANACH: Did you say within a week?

13 MR. KELLAHIN: I don't know. When are you coming
14 back? I can do it Christmas Day.

15 MR. BRUCE: Whenever you want. I mean, I know
16 you're going to be gone next week.

17 MR. KELLAHIN: Just tell us when you want it.

18 EXAMINER CATANACH: I won't be back till the 2nd,
19 so it's not going to do me any good to get it before the
20 2nd. So...

21 MR. BRUCE: The only thing we're concerned about
22 is that farmout is still running.

23 EXAMINER CATANACH: I understand.

24 MR. KELLAHIN: We'll give it to him by the 2nd;
25 is that all right?

1 EXAMINER CATANACH: Okay, there being nothing
2 further in these cases, Case 11,677 and 11,666 will be
3 taken under advisement.

4 And this hearing is adjourned until 8:15 in the
5 morning.

6 (Thereupon, these proceedings were concluded at
7 4:26 p.m.)

8 * * *


CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

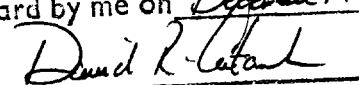
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL December 28th, 1996.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11666 / 11677 heard by me on December 18 1996.


 _____, Examiner
 Oil Conservation Division

STEVEN T. BRENNER, CCR
 (505) 989-9317